

# **PRO-POOR HOUSING FINANCE**

## **Thailand Country Report -Final-**



**United Nations Economic and Social Commission for Asia  
and the Pacific  
and  
National Housing Bank of India**

Prepared by

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## Preface

The National Reporter, Ms. Chantana Chanond, would like to thank all contributors who assisted in the preparation of Thailand Country Report on Pro-Poor Housing Finance. I would like to express my appreciation for all the efforts and advices they provided throughout the project. I am pleased that these contributors represent different organizations and points of views. I also thank the staff of UNESCAP and the National Housing Bank of India who worked in this project for their contributions.

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## **Abbreviations**

ATM	Adjustable Term Mortgage
BAAC	Bank for Agriculture and Agricultural Cooperatives
B.E.	Buddhist Era
BEA	Baan Eua Arthorn
BHT	Thai Baht (currency of Thailand)
BMA	Bangkok Metropolitan Area
BMK	Baan Mankong
BOI	Board of Investment
BOT	Bank of Thailand
CBO	Community Based Organization
CODI	Community Organizations Development Institution
DCD	Department of Community Development
EIA	Environmental Impact Assessment
GDP	Gross Domestic Product
GH Bank	Government Housing Bank
GPS	Global Positioning System
GSB	Government Saving Bank
IMF	International Monetary Fund
MAI	Market for Alternative Investments
MFI	Micro Finance Institution
MLR	Minimum Lending Rate
MRR	Minimum Retail Rate
NESDB	National Economic and Social Development Board
NGO	Non-Governmental Organization
NHA	National Housing Authority
NHF	National Housing Fund
NSO	National Statistical Office of Thailand
PN	Promissory Note
REIC	Real Estate Information Center
RFD	Royal Forestry Department of Thailand
SEC	Securities Exchange Commission
SET	Stock Exchange of Thailand
SFI	Specialized Financial Institution
SMC	Secondary Mortgage Corporation
SME	Small and Medium Enterprise
THB	Thai Baht (currency of the Kingdom of Thailand)
UCDO	Urban Community Development Organization
USD	United State Dollar (currency of the United State of America)

## **Currency Conversion**

BHT 35 is equivalent to 1 USD

## SECTION 1: BRIEF DESCRIPTION OF THE COUNTRY

### 1.1 Physical, Demographic, and Socio-Economic Profile

#### Physical

The Kingdom of Thailand covers 513,115 square kilometers with borders touching Malaysia, Burma, Laos, and Cambodia. Its seacoast extends from the Cambodian border in the east to the Malaysian border in the south and along the Andaman Sea in the west. Its 63 million people (18 million households) occupy about 20 million dwellings in four major regions. The people in each region share the predominant culture of the Central Region but have some cultural distinctiveness as well in customs, language, and traditions. Most Thais are Buddhists. Muslims make up about 5% of the population. Other religions are less than 1%.

#### Demographic Profile

Thailand's population size has been stabilized. Population growth is currently less than 0.5% per year.<sup>1</sup> The country has successfully completed the demographic transition from high birth-rates and high death-rates to low birth-rates and low death-rates. Housing demand can be expected from the effects of wealth, income, gentrification, and migration. Housing demand will nevertheless continue as people migrate to the cities that are expanding and strong urban centers.

**Table 1-1: Thailand Population Structure 1984-2019**

Population Structure	Year				
	1984	2004	2005	2006	2019_f
Population (thousand)	50,637	60,550	60,991	61,396	70,213
Childhood (0-14 years)	36.9%	22.1%	21.7%	21.4%	20.0%
Adults (15-59 years)	57.4%	67.7%	67.9%	68.0%	65.3%
Elderly (60 years up)	5.7%	10.2%	10.4%	10.6%	14.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: National Statistical Office, Thailand

Many government leaders and officials, businesses, and citizens do not fully understand the transition's implications, including future labor shortages. Labor shortages, particularly for skilled-labor are already appearing in many key industries, such as agriculture and construction as Thailand transitions to a modern economy. This labor shortage will result in some combination of higher prices and technological improvement. However, in housing sector, it seems that technology will continue to offset labor cost, keeping housing prices from rising.

<sup>1</sup> This estimate comes from extrapolating National Statistical Office data.



## **Urban & Rural**

More than 36% of Thais live in urban areas. Urbanization is not a recent phenomenon in Thailand. Urban and rural areas have been major social, economic, and geographic aspects dating back at least, to the Ayuthaya Period (prior to 1765)<sup>2</sup>. Ayuthaya was one of the greatest and wealthiest cities in Asia, a thriving seaport envied not only by the Burmese but by the Europeans who were in great awe of the city. It has been said that London, at the time, was a mere village in comparison.

Modern infrastructure expansion including highways connecting provincial urban centers to Bangkok and other seaports as well as communication system improvements have largely impacted the growth of local urban centers away from Bangkok, which is the country's major urban center.

Population increases in most large cities has been due to migration rather than household formation. The Central Region where Bangkok located has received most of the expansion.

## **Urbanization Levels**

Urbanization in Thailand is increasing due to industrialization. Thailand has developed large industrial estates many of which are in the Central Region that require hundreds of thousands of laborers.

The largest urban population increases are in southern Thailand. Northeast Thailand has now surpassed the North which is now the lowest average income region. Not all urban areas are increasing in population. Chiang Mai and the North are expected to experience population decreases between 2007 and 2012. However, migration to urban areas will continue increasing housing demand in this region as well as the entire country.

## **Largest Cities**

The largest cities in descending order of population are:

- Bangkok Metropolitan Area (5.7 million)
- Ubon Ratchani (1.8 million)
- Chiang Mai (1.7 million)
- Udonthani (1.5 million)
- Sisaket (1.5 million)
- Nakorn Rachashima (2.6 million )
- Khon Kaen (1.8 million)
- Buriram (1.5 million)
- Nakorn Sri Thammarat (1.5 million)
- Surin (1.4 million)

Please note that out of this list of top ten cities, seven are located in the Northeastern Region which suggests this region is no longer as poor as it has been traditionally considered.<sup>3</sup>

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<sup>2</sup> In 1690 Londoner Engelbert Campfer proclaimed 'Among the Asian nations, the Kingdom of Siam is the greatest. The magnificence of the Ayuthaya Court is incomparable.' from <http://hotelthewhitehouse.com/thailand-history-ayuthaya.html> and the Lonely Planet

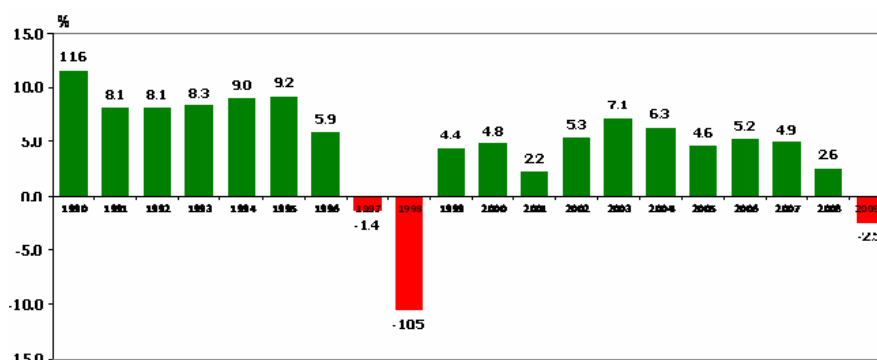
<sup>3</sup> [http://service.nso.go.th/nso/data/ToptenHTML/people\\_high.htm](http://service.nso.go.th/nso/data/ToptenHTML/people_high.htm)

## Gross Domestic Product (GDP)

Thailand GDP for 2008 is estimated to be USD 270 billion and grew at about 2.6%. GDP per capita is estimated to be USD 4,072. Exports are USD 175.3 billion or 64% of GDP.<sup>4</sup>

The Fiscal Policy Office, Ministry of Finance projects that the Thai economy will contract at -2.5% per year in 2009 due in large part to the severe contraction of major trading partners' economies.<sup>5</sup>

**Figure 1-1: Growth Rates of Thailand GDP (Constant price)**



Source : IMF, Bank of Thailand

## Inflation Rates

The Bank of Thailand calculates two official inflation rates; one that excludes petroleum and food costs (core), and another that includes petroleum and food (headline). The non-petroleum and non-food inflation rate for 2008 was 2.4%. While the rate including petroleum and food is 5.5%. Its monetary policies aim at controlling the non-petroleum and food index.<sup>6</sup>

Headline inflation in 2009 is projected to decline to 0.7% per year following significant oil price decreases compared to 2008.<sup>7</sup> Core inflation is projected to fall to 1.2% in 2009.

## Unemployment

The unemployment rate for 2008 was 1.4% of total work force.<sup>8</sup> As the global economy begins affecting the Thai economy, the unemployment is expected to rise to 3.8% of the labor force in 2009.<sup>9</sup>

<sup>4</sup> [http://www.fpo.go.th/pdf/forecast\\_Eng\\_March08\\_pres.pdf](http://www.fpo.go.th/pdf/forecast_Eng_March08_pres.pdf)

<sup>5</sup> Fiscal Policy Office, Ministry of Finance, March 25, 2009

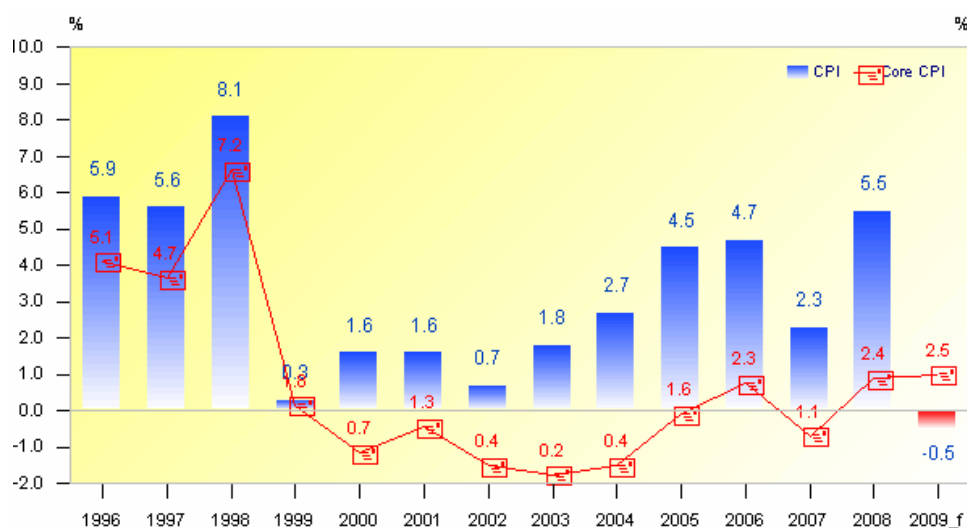
<sup>6</sup> <http://www.bot.or.th/English/Pages/BOTDefault.aspx>

<sup>7</sup> Fiscal Policy Office, Ministry of Finance, March 25, 2009

<sup>8</sup>Source : National Statistical Office of Thailand

<sup>9</sup> Fiscal Policy Office, March 25, 2009

**Figure 1-2: Headline and Core Inflation in Thailand (1996-2009\_F)**

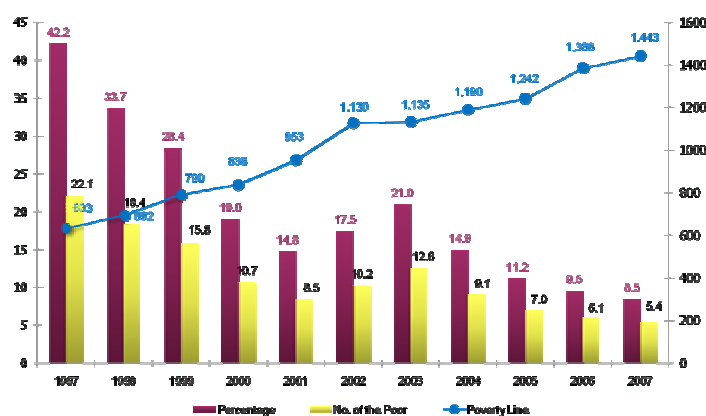


Source: Bureau of Trade and Economic Indices, Ministry of Commerce, Thailand

### Urban/Rural Population and Poverty Line

Thailand does not have a Standard Poverty Line. NESDB calculates a poverty line using a market basket approach which includes cost of housing. In 2007, NESDB estimated a poverty line at THB 1,443 per person per month or about THB 4,600 per household for the country as a whole. About 5.4 million people (8.5%) live below the poverty line. A threshold concept such as the poverty line is technically an anti-poor concept.<sup>12</sup> Such standards make it difficult for the poor to progress out of poverty because of the threshold and labeling effects of threshold indices.

**Figure 1-3: Poverty Line, Percentage and Population**



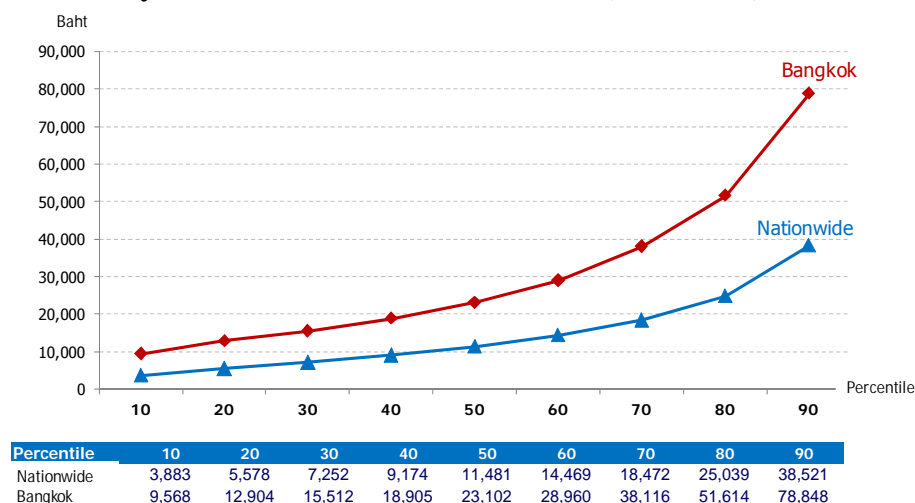
Source: NSO & NESDB

<sup>12</sup> In the US, this concept is used to quantify the assistance needed; however, it does exactly the opposite and provides a barrier to those poor who wish to get out of poverty. Reasons for being poor have nothing to do with poverty lines and cannot even be used to estimate housing demand because many poor wish to rent.

Income distributions, shelter payments, savings, and household net assets are used to develop a household financial index. This index is more useful than the poverty line because it delineates households that require financial assistance and shows the extent financial problems increase when monthly incomes decrease.

This data is for all regions (four regions plus details for BMA and Bangkok Metropolitan Region).<sup>13</sup> In general, households with incomes of THB 6,000 to 7,500 or less per month usually experience financial problems. Since most of the distributions become negative at this monthly household income range, the data provides a household financial index.

**Figure 1-4: Monthly Household Income Distribution (Year 2009)**



Source: NSO, adjusted for inflation

About 480,000 households live in 1,726 slums throughout the country (estimated 2.4 million people).<sup>14</sup> Other low-income households live in various accommodation provided by the housing delivery system (*see section 2.1*). Average shelter payments are 15% of monthly household income and increase as income lower. Some low-income households face high shelter payment because of their particular short-term situation, for example, one just lost the job, they were divorced, hospitalized or passed away.

Thailand's Gini Coefficient is 43 for households and 51 for the population. Household savings are about 20% of disposable income and 33% of GDP.

## 1.2 Political and Administrative Structure

Thailand is a constitutional monarchy headed by His Majesty, King Bhumiphol Adulyadej; the world's longest serving Monarch.

Thailand's national government consists of an elected two-chamber parliament with a Senate (upper house) made up of 76 elected members and 74 appointed members and

<sup>13</sup> The Bangkok Metropolitan Region includes the Bangkok Metropolitan Area and its fringe consisting of 5 provinces that surround the Metropolis.

<sup>14</sup> Base on NHA's Geographical Information System

parliament (lower house) made up of 400 elected members and 80 members from political parties by proportional representation. The Government is headed by a Prime Minister and a Cabinet. Parliament and Senate members are partly elected by national elections.

Provincial governments are an extension of the central government and budgets and governors are selected and approved by the central government. Government structures and political structures are mostly top-down.

### **1.3 Financial Sector<sup>15</sup>**

Thailand has learned much since 1997 when the country was largely blamed for igniting the Asia financial crisis because of an inadequate regulatory infrastructure that led to a bubble economy that ultimately exploded. The country was forced to seek bitter medicine from the International Monetary Fund (IMF) when its reserves almost disappeared.

Since then, Thailand has fully repaid its IMF loans and has built its foreign reserves to more than USD 100 billion as of December 31, 2008.

The Stock Exchange of Thailand has a total market capitalization of THB 3.9 trillion as of April, 2009.

#### **Major Banking and Non-Banking Institutions**

Thailand has a wide-range of financial institutions that serve different market sectors.

The 1997 financial crisis and its effect on financial institutions resulted in a complete over-haul of Thailand's regulatory framework, that primarily involved consolidating financial institutions into fewer and more well-capitalized organizations.

Thailand currently has 17 Thai incorporated commercial banks that are regulated by the Bank of Thailand. All of the commercial banks are primarily privately owned except Krungthai Bank which is a majority government-owned commercial Bank (*see Appendix 1*). In addition, foreign commercial banks operate with limited licenses. As of March 30, 2009, commercial banks in Thailand had deposits of THB 7.248 trillion.

To serve special needs, Thailand also has eight government-owned Specialized Financial Institutions (SFIs). These include the Government Housing Bank (GH Bank), Government Savings Bank, SME Development Bank, Bank of Agriculture and Agricultural Cooperatives and the Islamic Bank of Thailand.

SFI shares are owned by the Ministry of Finance and their operations are regulated by the Bank of Thailand (*see Appendix 2*).

Thailand also has numerous finance and leasing companies that provide special requirements such as credit cards, automobile financing, factoring and various types of consumer finance lenders including pawn shops.

Thailand's capital markets have been developing for more than two decades. Companies routinely raise equity through the Stock Exchange of Thailand (SET) and its secondary market the Market for Alternative Investments (MAI).

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<sup>15</sup> Data comes from the Bank of Thailand

During the past decade, Thailand's bond market has also developed. The government and many SET-listed companies routinely raise funds by issuing short and long-term bonds. Promissory notes (PNs) are also issued to raise short-term funds.

Foreign direct investments have been contributors to the Thai economy during the past several decades. Major Japanese companies have helped Thailand develop its automobile and electronic industries. About 10.2% of net inflow of foreign investment went to financial institution but there is no information on what the funds were used for.

### **Regulatory Structure of Financial Markets**

The financial markets in Thailand are governed by the Ministry of Finance which is responsible for policy making and issuing related laws and regulations. The Bank of Thailand meanwhile maintain financial markets order, regulates and supervises all types of financial institutions including commercial banks, finance companies and credit fonciers. Commercial banks which engage in capital market activities such as bond underwriting are also subject to rules and regulations set by the Securities Exchange Commission (SEC) under the SEC Act.

The Bank of Thailand uses three types of financial instruments to set interest rates: 1) Legal reserve requirements; 2) Open market operations; 3) Standing facilities or short-term collateralized lending to financial institutions at a set interest rate.

### **Overview of Co-operatives, Community-Based Organizations and NGO's**

Cooperatives play an important role in micro-financing in Thailand particularly among middle to low income people in different business sectors. Currently, cooperatives in Thailand are officially categorized into seven types: agricultural, land settlement, fisheries, consumer, thrift and credit, service and credit union cooperatives. More than 10 million people (about 15% of the population) are members of more than 6,000 cooperatives.

The history of agricultural cooperatives can be traced back to 1914, when the Thai economy opened to international trade during the reign of King Rama The Fifth. In 1966, the Bank for Agriculture and Agricultural Cooperatives (BAAC) was established as a state enterprise to be a financial center for agricultural cooperatives as well as individual farmers.

Cooperatives in Thailand are governed under the Cooperative Act BE 2542 (1999) an amendment to the prior acts after consultation between government and non-government institutions.<sup>16</sup>

The Department of Community Development (DCD) manages a community cooperative fund. To obtain loans, borrowers must be members with savings accounts having monthly deposits for at least six months. They submit income generating projects for loan approvals. Interest rate is usually about 24 % per annum.

Low income communities in rural and urban areas are also encouraged to set up their own community-based organizations. The Community Organizations Development Institute (CODI), a governmental body set up in 2000, is mandated to empower and strengthen community organizations which would help low income people to become stronger and self-reliant. As of the end of 2008, there were as many as 64,952 organizations which were

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<sup>16</sup> Thuvachote, Suwanna, 2007 "Agricultural Cooperatives in Thailand: Innovations and opportunities in the 21<sup>st</sup> Century"

endorsed by CODI involving over 16 million members and about THB 15.8 billion worth of savings.

### **Pawnshops and Other Informal Financial Markets**

Pawnshops are common sources of liquidity for low-income people by pledging their assets for quick cash which might include the monthly housing loan payment; however, they are not part of housing finance. Pawnshops in Thailand are governed by Pawnshops Act BE 2505. At present, there are two types of pawnshop; government-owned and private-owned with maximum interest rate of 2% per month.

Informal group lending among trusted friends is also a common way for individuals to borrow money for investment. This lending practice is still very popular, even though it was outlawed when a large lending pool collapsed.

Thailand also has an informal loan market that provides short-term loans at very high rates. Some of the borrowers pay annual interest rates in excess of 10% per week.

These loans are primarily made to low income people. Several slum studies suggest that dwellers use such funds to purchase clothes for school and/or other educational expenses, immediate health needs, and short term business capital.

During the past several years, one government has introduced special programs tried to pay off these loan through the SFIs such as the BAAC's People Bank Project.

## **1.4 National Development Policies**

The National Economic and Social Development Board (NESDB) is responsible for drafting national economic and social development plans. The first five-year began in 1967. The main goal of the present development plan, 10th National Economic and Social Development Plan which runs through 2012 is sustainability.

The 10th Plan will also continue developing a Green and Happiness Index. The index measures health, family warmth and love, community empowerment, economic strength and equality, environment and ecological development, democratic values and good governance development. In term of housing development for low-income households, NHA and CODI followed these guidelines by promoting empowerment and community strengthening in their projects and follow the practices of sustainability and sufficiency.

## SECTION 2: HOUSING CONDITIONS AND HOUSING POLICIES

### 2.1 Housing Conditions

#### Physical Conditions

The typical Thai dwelling is a detached dwelling made of permanent materials supplied with tap water, electricity, and sewage disposal on dweller owned land.<sup>17</sup> About 73% of Thai households own their own dwellings, while approximately 9% live in mortgaged homes and 11% rent. The remaining 5% of households live in rent-free accommodations and 1% pay in-kind for their rental housing. In most cases, Thais live in detached dwellings (80%). Other types of dwellings include townhouses, apartments and flats, condominiums and row houses. About 94% of dwellings are made of permanent materials; cement or brick 28%, wood and cement or brick 20%, and other hybrid permanent materials 48%.

Basic infrastructure is available to more than 95% of households in Thailand. Electricity, water, roads, and septic tanks are widely available in Thailand. The Provincial Electricity Authority provides households with solar electricity until their utilities are constructed.

During the past 10 years or so, most rural districts have been provided potable tap water from wells or other sources. The Thai military and police construction crews provide roadways in remote areas, many of them rolled laterite or asphalt. Concrete materials especially designed for septic tanks are also available nationwide. In many areas, a toilet can be built for about THB 1,000. Local districts often require a proper toilet for house registrations. About 97% of households have flush-toilets, squat-toilets or flushing squat-toilets. Water, electricity, and sewage (septic tanks) are installed and used in more than 95% of households. Most households (47%) obtain piped-water from taps. Other households use wells (44%) or rainwater (2%). A small number of households (5%) use other sources like lakes, streams, and waterfalls.

Cooking is usually done with gas (57%), or charcoal and wood (33%). Most households (91%) have televisions and 74% of households have refrigerators while 91% have fans. About 16% of households have some type of agricultural equipment and machinery.

Average household size is 3.5 persons and the average room per household is 2.8 rooms per household.<sup>18</sup>

Minimum construction standards are required for building permits. However, enforcement is often limited. The Bangkok Metropolitan Administration is struggling with these issues and has enacted strict laws. However, citizens still build, expand, and renovate dwellings without permits. Some grandfathering has been allowed.

Housing stock is difficult to estimate in Thailand. However, because there is no significant housing backlog and very few street people, the housing stock should equal the number of households (18 million dwellings). The National Housing Authority (NHA) undertook aerial surveys in Bangkok Metropolitan Region which yielded a more accurate estimate of housing stock.

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<sup>17</sup> Data in this section are from the National Statistical Office's 2000 Census.

<sup>18</sup> NSO, Table 5 Selected Characteristics of Households – need to find Whole Kingdom – NA web



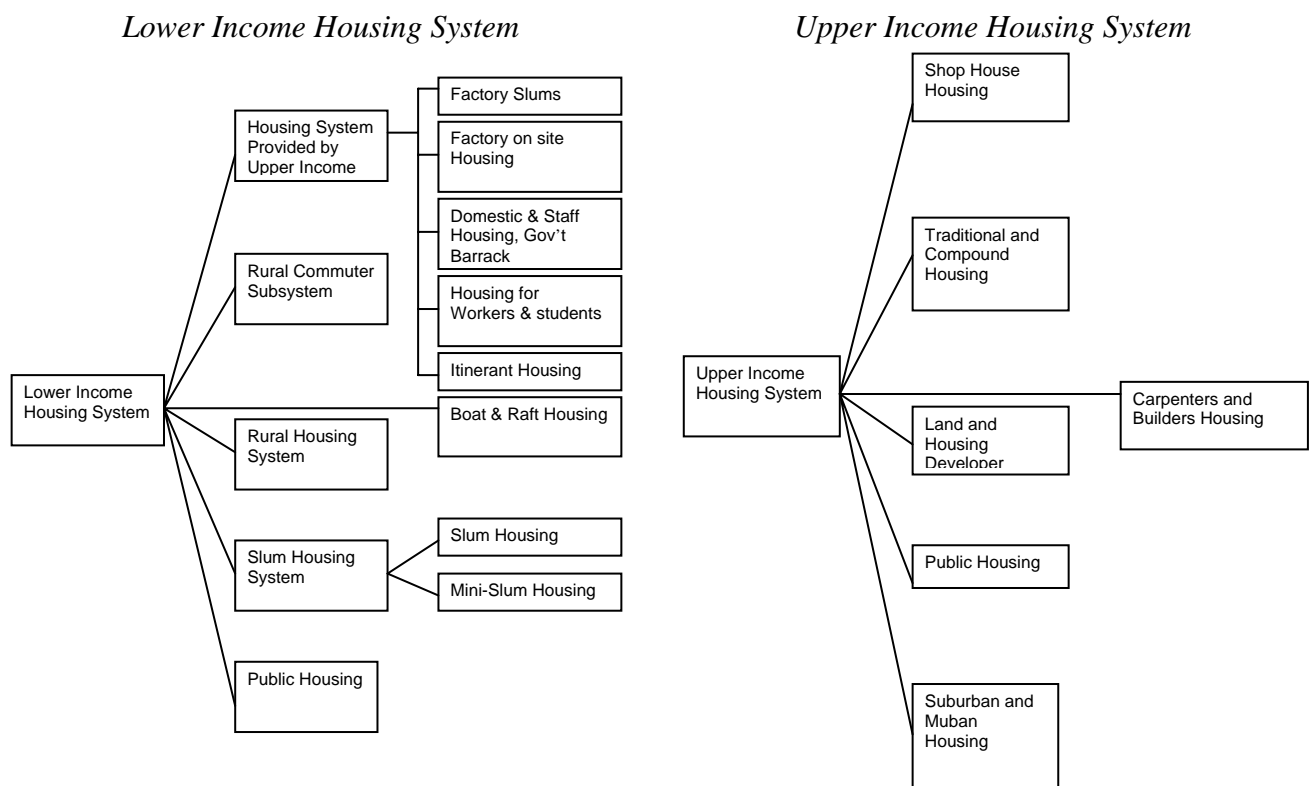
## Housing Supply System Model

The Housing Supply System model can be used to understand the delivery of housing. This model includes supply factors, such as, housing finance, owner builder replacements, renovation, and expansion of housing as legitimate housing stock additions.

Housing adequacy varies by social and economic circumstances. Empirical studies show that 14% of monthly income is the cultural norm for shelter payment.<sup>19</sup> Financial institutions have established an upper limit of between 25 to 35% of monthly income.

The Lower Income Housing Supply System diagram indicates how households with low incomes are provided housing in Thailand. To better serve their needs, focus could look at how each different alternative can be improved or optimized.

**Figure 2-1: Housing Supply System Model**



## 2.2 Stakeholders in Housing

Everyone in Thailand is a land and housing stakeholder. Government organizations and agencies own substantial amounts of land and buildings. The Royal Forestry Department (RFD) controls about 230,370 square kilometers of the land in Thailand, about 45% of all land in Thailand.<sup>20</sup> The remaining land is held by individuals and organizations with land titles or some type of land agreement. The RFD allows portions of its land to be used for farming.

<sup>19</sup> See Johnson, T. E., Housing Demand Study to Provide Estimates of Housing Demand, Housing Affordability, and Housing Need, National Housing Authority, Department of Housing and Human Settlements Studies, June 21, 2549.

<sup>20</sup> There is a discrepancy here of about 100,000 km sq.

**Table 1-2: Housing Stakeholders**

Key Actors	Type of Involvement	Extent of Involvement	
		Land	Real Estate
Government Agencies	Users and Developers	High	Not in Market
Forestry Department	Controller	High	Low
Military	User and Developer	High	Not in Market
Non-Profit Institutions	Mostly Users	Low	Low
Developers	Developer	High	High
Builders	Supervised by Owners	Moderate	Moderate
Construction	Supervised by Owners / Developers	High	High
Petty Contractors	Supervised by Owners	Low	Low
Farmers	Mostly Users	Low	Very Low
Homeowners	Users and Developers	Moderate	Moderate
Renters	Users	Minimal	Minimal
Single Persons/Others	Users	Minimal	Minimal

In Thailand, overall housing policies are determined by each individual government and subject to constant change. Each government develops and implements policies toward housing, including land procurement, coordinating infrastructure, subdivision approvals, building codes, environmental impact permits, city building, and registering deeds. Dealing with these agencies often faces delays, added costs and required revision resulting in delays and increased costs of construction.

NHA is permitted lower design standards (but not lower construction standards) so that it can construct and deliver lower cost lower-income housing.

The government currently does not collect property taxes. However, when land or dwellings are sold, a 3% tax is assessed on the sales price, if the land or dwelling has been owned for more than 10 years or more as well as a 0.02% title transfer fee.

Private developers are significant housing providers in Thailand. They provide homes at all price levels beginning with low-income housing up to multi-million dollar high-end houses.

Much of NHA's housing has been subsidized directly or indirectly. Subsidies have varied from 100% for low-priced rentals for urban apartment projects, moderate subsidies for slum improvement programs to 18% for Baan Eua Arthorn (BEA) subdivisions. Previously, NHA utilized cross-subsidies between lower-income and commercial projects to facilitate the delivery of lower-priced housing residential units.

NHA and, more recently, CODI have targeted the urban poor including those outside Bangkok. Present NHA plans also include rural housing for the low-income, at least in terms of supporting research and demonstration projects in rural housing.

The NHA's Community Development Program (slum improvement) which began in 1976 has assisted at least 800,000 persons. The actual assistance varied depending upon the needs of the community and its residents. Other NHA programs targeting urban low-income include low-income apartments, re-blocking, and sites and services.

## **2.3 Housing Policies – Government and Civil Society**

Thailand does not have a comprehensive national housing policy. However, three main government organizations, Government Housing Bank, National Housing Authority, and Community Organizations Development Institute are responsible for implementing government housing policies and programs for middle and low-income households.

Government intervention in housing development started after World War II. Prior to this time, housing was considered as an individual effort rather than a government responsibility. In 1953, The Royal Thai Government established the GH Bank as housing developer and housing finance institution.

In 1973, the government created the NHA as a state enterprise under the Ministry of Interior. In 2003, when government restructured government agencies, NHA came under a newly created ministry: Ministry of Social Development and Human Security. NHA became the principal organization to insure available shelter for all residents of Thailand in particular to assist households with low and middle incomes living in urban areas (in form of hire purchase and rent).

As a state enterprise, NHA operates in a semi-official capacity allowing it to conduct business with greater flexibility than as a government department under a national ministry. As a state enterprise NHA is also expected to be self-supporting. NHA has some advantages operating as a state enterprise, but ultimately it is accountable to a higher level of authority, its Ministry. From its inception, NHA always has had to reconcile these two goals: provide housing for the low-income, while being financially self-sufficient. This has been difficult to achieve.

NHA, charged with solving “the housing problem” (a concept that varied over time) developed many different plans, strategies, programs, solutions, and projects during the past 36 years. Some ideas like eliminating the housing shortage periodically appear as government policy.

The Government of M.R. Kukrit Pramoj declared for the first time in Thai history that eliminating the housing shortage was a primary goal. This government resolved to eliminate the housing shortage by building 120,000 units from 1976-1980. The program required heavy Government subsidies.

In 1975, in consultation with the World Bank NHA reconsidered housing policy alternatives and decided to utilize different approaches, such as, community improvement (slum upgrading), and sites and services projects. At the same time, NHA also utilized a mixed approach by constructing apartments, residential subdivisions, and special projects such as government employee housing.

Slum improvement formed a significant part of budgets until 1997. In 1997, the activities were transferred to local administrations. At least a million people were served in some way by this comprehensive, nation-wide plan programs for individuals, households, and communities and coordinated existing government services for these areas: a comprehensive approach seldom seen in social and economic programs targeting lower income individuals. This program also initiated a small business loan program in 1976 that was the first micro-financing program ever.

In 1992, the government established the Urban Community Development Organization (UCDO) under the National Housing Authority. At that time, the view was that there was a need to address urban poverty by developing some participatory models of support for low-income groups through community-based savings and credit groups. Housing for low-income

individuals could be improved by working with the low-income communities and developing a network of communities.

In 2000, UCDO merged with the Rural Development Fund, to become a new public organization called Community Organizations Development Institute (CODI). CODI continues to support the UCDO program to reduce poverty both in urban and rural areas.

The government also encourages the private sector to build housing for lower middle income groups. Since 1993, the Board of Investment (BOI) has offered privileges for private housing projects, at a price not more than THB 600,000, in specific industrial zones. Recently, the Government of Prime Minister Abhisit Vejjajiva agreed to adjust certain conditions of these BOI promoted housing projects and lift the price ceiling to 1.2 million in some zones as an economic stimulus package.

Currently, NHA continues to be a major housing provider for middle and low income households. The Government of Prime Minister Thaksin Shinawatra in late 2003 launched a “One Million House Program” (2003-2008). Under this program, the government instructed the NHA to build 600,000 units (BEA Program) and CODI to upgrade another 300,000 units in the existing communities (Baan Mankong or BMK Program). Another 100,000 units were assigned to GH Bank to finance. The objectives of this policy were to stimulate the economy, increase job opportunities, and provide home ownership.

Without a comprehensive national housing policy or unified governmental approach towards housing, problems may continue to persist, especially pertaining to NHA’s role. NHA was under pressure to achieve 600,000 units. The scope of this program was also beyond the NHA’s organizational capacities and its financial viability is now in question.

In 2007, NHA collaborated with other stakeholders, public and private professionals, interested citizens and with Government of the Netherlands support prepared a roadmap for a National Housing Strategy which was proposed to the Cabinet for approval. The Cabinet approved the National Housing Strategy along with establishing the National Housing Policy Committee as prescribed in the Royal Gazette dated 29 May 2008. One of the major responsibilities of the National Housing Policy Board is to oversee the formulation of long-term national comprehensive housing policy rather than relying on individual government’s policies.

The new housing development approach is to: 1) put housing as national agenda; 2) promote land and infrastructure conducive to housing development; 3) make housing finance available for all income levels; 4) strengthen the capability and participation of all stakeholders in the development and management of housing; 5) provide housing information to all citizens; 6) improve housing quality and the livelihood of Thai citizens; and 7) institute appropriate housing standards.

## SECTION 3: HOUSING FINANCE SYSTEM

### 3.1 History and Evolution of the Housing Finance Systems<sup>21</sup>

Banking system in Thailand started prior to World War II with the establishment of the Siam Commercial Bank for the specific reason that Thailand needed its own banking system to serve the country's economic development (earlier established as the Book Club in 1904). Formal housing finance began after the Second World War with the Government Housing Bank's creation in 1953. However, easily accessible nationwide home mortgages only became available after major banking reforms in 1984-1985.

Before the Second World War, British and French Banks controlled the Thai financial system. Thai commercial banks began life only after the Second World War. They concentrated on trade finance. The government wanted also to promote housing and housing finance for middle and low income customers. GH Bank was chartered to accept time deposits from the public, but lending was restricted to housing. Establishing a bank to mobilize housing finance was necessary because banking system was the main source of funds in Thailand.

GH Bank was also chartered to buy or acquire lands, sub-divided them into land plots and developed its own housing estates for sale to the public. The bank became both banker and developer. In the beginning, similar to specialized housing banks in many developing countries, operation was not successful. GH Bank deposits were not attractive. Its services could not compete against the commercial banks with larger branch networks.

The government assisted the bank in resolving funding problems by guaranteeing the Bank's bond issuances. Like other developing countries, the Thai bond market was too small and the tenors were short. Also, the government's guarantee was very limited. The government fiscal position was always tight and it usually wanted to sell its own bonds first to finance budget deficits. GH Bank's operations remained very small.

GH Bank financed housing purchases through hire purchase contracts. Unlike normal mortgage contract, home buyers under long-term hire purchase contracts had to pay all monthly installments before the land and house ownership titles were transferred to them.

In those days, most Thai people worked in government services, agriculture and home industries. Only later did the rise in trades and manufacturing result in increasing numbers of salaried workers. However, the demand for housing in Thailand then was still much larger than the tiny Government Housing Bank operation could provide.

Because of their popularity GH Bank's houses were emulated by private developers. As the Thai urban economy grew, many entrepreneurs who saw opportunities began developing private housing projects. Many of these early real-estate developers were big landowners that subdivided land and sold each plot by installment.

GH Bank did not have enough funds to lend to customers of private housing estates. Commercial banks did not extend long-term mortgages either. These early housing developers had to finance the buyers themselves. The people who wanted to buy homes paid the developers by installments for the land and houses. Similar to GH Bank, only after all the

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<sup>21</sup> Patpongpiul, Kitti, 2009. Government Housing Bank and Housing Finance in Thailand, *GH Bank Housing Journal*, vol 3, No. 6, some revision was made to the article

installments were paid, the developers would then transfer property title deeds to the buyers. This private sector housing and housing finance method continued in Thailand until the 1960s.

The private housing developer business was very profitable. Successful developers were able to borrow money from commercial banks, buy more land and build more housing projects. Commercial banks were willing to lend to property developers by overdraft facilities on land mortgages and renew the facilities each year as long as business was good.

Beginning in 1973, GH Bank extended fixed rate mortgage loans up to 15 years, funded by bond issues with government guarantees. Foreign currency long-term funds were also raised in foreign capital markets, guaranteed by the government. GH Bank bonds were purchased by commercial banks because they were guaranteed by the government and can be used by financial institutions as a reserve asset.

Government guarantees were hard to come by. Bonds issued were medium term, but mortgages were long term. Foreign currency loans resulted in exchange losses. Mortgage lending by GH Bank was still very limited. Home buyers had to wait years to gain access to GH Bank mortgage loans.

The risks associated with fixed rate mortgages financing in developing economies were unforeseen. The country adopted foreign mortgage finance systems without considering the local financial environment.

Financial crises struck the country in the 1970s and again in the early 1980s. During these crises, Thai Baht was devalued, interest rates sky-rocketed, and liquidity was short and the real estate industry collapsed.

The GH Bank incurred heavy losses from the higher cost of funds during these crises and low fixed-rate mortgages extended earlier. It was also crippled by foreign exchange losses and bad loan to real estate developers. The Bank was saved by government recapitalization, but the Thai housing finance system was seriously affected.

From the mid 1980s onwards, GH Bank began revolutionary reforms. Real estate lending to developers was discontinued. GH Bank decided to concentrate on retail mortgage lending.

GH Bank introduced a new kind of savings deposit that paid higher interest rates than commercial bank deposits. Large amount of funds flowed into GH Bank. The special ability of GH Bank to pay higher deposit interest rates than commercial banks grew from reforms of mortgage operations, innovations and fewer bad loans.

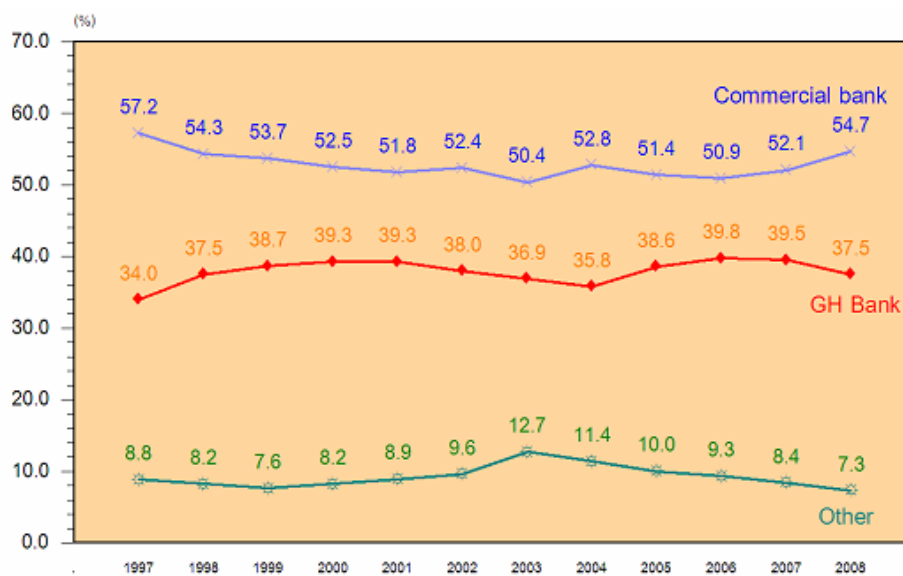
One of the most important innovations was “Adjustable Term Mortgage (ATM)”. The Depository Housing Finance System worldwide depends on short term deposits. When deposits interest rates go up, mortgage lenders have to raise mortgage rates and monthly payments to survive. But in a crisis, sudden rate hikes result in great number of homeowners who could not make payment and their loans would become bad loans. Many lenders fail in crises because of such sharp interest rate hikes. Fixed rate mortgages are out of the question because matching long-term bonds are not marketable in small and short tenor bond markets of Thailand.

ATM System addresses this problem. First of all, mortgage contracts are designed with terms that are ‘automatically’ extendable when mortgage rates go up (and are shortened when rates come down), while monthly payments are kept constant. Secondly, a margin is added to the mortgage rates in calculating monthly payments to absorb further rate hikes from the beginning. At the very beginning, fixed monthly installments help borrowers in determining

their ability to pay, reduce loan losses and vastly lower operation costs of the Bank. This system works well even in crises.

Prior to the late 1980, Commercial banks, that held the largest share of savings market in Thailand were uninterested in housing finance. However, they began extending home mortgage loans afterward. Today, GH Bank, the largest mortgage lender, lends about 38% of the home mortgages.

**Figure 3-1: Housing Loan Market Share Thailand**



Remarks: Other consists of GSB, Finance Companies and Credit Fonciers

Source: BOT, GH Bank, GSB, NHA

### 3.2 Contribution of Housing and Housing Finance to the Economy

Financing became readily available for the real estate industry and homeowner financing in the 1980s. The Thai economy by that time has experienced two decades of unprecedented growth. Private sector housing estates catering to all income levels mushroomed throughout the country.

Real estate development and big industrial projects expanded sharply after the Gulf War in 1991. However, excessive foreign currency borrowings encouraged by the government together with high risk lending by commercial banks caused a larger economic downturn resulting in 1997 Asian financial and currency crisis.

The Thai government has long realized the importance of a healthy real estate market and construction industry. Some statistics show that the industry contributes as much as 25% of the country's GDP. The residential real estate industry on its own contributes about 10% to the country's GDP.

**Table 3-1: Residential Mortgage Loan and GDP**

Items	2002	2003	2004	2005	2006	2007	2008
Residential Mortgage Outstanding (RM)	759,822	866,856	1,055,084	1,220,394	1,351,182	1,468,230	1,583,084
All Types of Loans (AL)	5,894,306	6,145,315	6,598,061	7,106,339	7,374,826	8,096,579	9,454,186
GDP at current price	5,450,643	5,917,369	6,489,476	7,092,893	7,841,297	8,493,311	9,102,785
RM:AL (%)	12.9	14.1	16.0	17.2	18.3	18.1	16.7
RM: GDP (%)	13.9	14.6	16.3	17.2	17.2	17.3	17.4

Source: Bank of Thailand

Several Thai governments have used real estate industry stimuli to help revive economic downturns. To revive a moribund economy during the 1997 crisis, the government encouraged GH Bank to begin special loan programs to middle-income Government Pension members.

This program helped clear the high housing inventory that many had blamed for exacerbating the unprecedented economic crisis. This special incentive program and other special tax and transaction incentives also helped to jump-start the middle and low-income industry and provided more than 100,000 people with new homes.

Most importantly, the resulting surging housing and housing finance recovery was viewed by most Thais as the key catalyst for a successful economic recovery from the 1997 crisis.

### **3.3 Governance of Housing Finance Market**

#### **Regulatory framework**

The laws put in place after the 1997 crisis, upgrading of financial institutions, and the Financial Sector Master Plan form the regulatory framework in Thailand. Appendix 3 of this report also shows the types of financial institutions, agencies that regulate each type, and the legal basis for the financial institution types.

#### **Capacities**

The housing finance market in Thailand is led by GH Bank and other 5 of the largest commercial banks. The outstanding housing loan value as of December 2008 was around 17% of total outstanding loans. Financial institutions support this market effectively and have sufficient capacities to enlarge the size of this market.



## **Actors**

Financial Institutions listed in Appendix 1A, 1B and Appendix 2 of this report plus developers, NHA, CODI, credit unions & cooperatives and possibly a small number of NGO's, moneylenders, relatives, friends, and others are actors. Also see Section 2.2 since some of the housing developers also lend money.

## **Micro-finance**

There is no organized micro-financing even though the National Housing Authority developed the methodology in 1975. The urban community development (slum improvement program) activities of NHA became the responsibility of the local governments because of the decentralization decisions made in the 1997 Constitution. CODI appears to be more interested in better housing than business development fostering financial independence and elimination of dependence on government.<sup>22</sup> The Department of Community Development provides small business loans less than THB 20,000. The Credit Union League of Thailand provides a comprehensive small business building program for hill tribe households in Thailand. Section 1.3 provides more details on the DCD loans and Section 3.4 Outlines the Credit Union activities in more detail.

## **3.4 Structure and Functions of Housing Finance Institutions**

### **Government Housing Bank<sup>23</sup>**

The Government Housing Bank was created when His Majesty the King Bhumibol Adulyadej graciously signed the Government Housing Bank Act BE 2496 on January 9, 1953. The Bank, a special-purpose financial institution under the Finance Ministry's supervision opened for business on September 24, 1953, with its mission being to help secure appropriate housing finance for the general public. During its first 20 years, GH Bank operated both as a housing finance provider and as a housing project developer.

In 1973, the government established the NHA to take over government housing project development. It transferred all GH Bank's and other agencies' assets, liabilities, and rights associated with land and building rents to NHA. GH Bank continued to extend short and long term loans to both housing project developers and the general public.

At the beginning of 1974, GH Bank began offering various deposit account services similar to other commercial banks. After the country's 1979 – 1981 economic crisis, GH Bank restructured its operations to operate successfully in Thai financial and social environment.

As of December 31, 2008, GH Bank had THB 1.58 million home mortgage loans outstanding. The Bank's total assets on December 31, 2008 were THB 663 billion and net profits for 2008 were THB 3,306 million.

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<sup>22</sup>For a radical view of NGO's in Thailand see Ji Giles Ungpakorn's article NGO's: enemies or allies: [www.isj.org.uk/index.php4?id=18&issue=104](http://www.isj.org.uk/index.php4?id=18&issue=104) - 46k

<sup>23</sup> Adapted from Government Housing Bank, Annual Report 2008

## Commercial Banks

Currently, 33 commercial banks operate in Thailand, 17 Thai incorporated banks and 16 foreign banks. Thai commercial banks have become major providers of home loan financing since the late 1980s. Today they provide about 50% of the total new home loans each year (*see Appendix I*).

While GH Bank concentrates on middle and lower income loans (THB 3 million and under), the commercial banks are major providers of housing loans in excess of THB 3 million per unit.

## Government Savings Bank

The Government Savings Bank (GSB) is a Specialized Financial Institution owned by the Ministry of Finance also participates in home loan financing for special middle and low income government initiatives. As of the end of 2007, GSB had housing loans outstanding of THB 116 billion or about 25% of its loan portfolio.<sup>24</sup>

Thai Government has initiated several policies and measures to alleviate and eradicate poverty in Thailand. Individually and in collaboration with other financial institutions and government agencies, GSB has provided financial services under a number of programs which include:

- **People's Bank Program:** It was established by GSB to expand financial opportunities to street vendors and other small entrepreneurs through micro-finance schemes. GSB requires personal guarantee or cross guarantee among the group of borrowers as collateral. The small entrepreneurs need to save up as a precondition for securing a loan and GSB provides them with occupational trainings. The amount of each loan is decided on the basis of the borrowers' investment need and their ability to repay. The amount of the first loan will not exceed THB 27,000 and the repayable borrowers can apply for a second loan up to THB 45,000. A loan amount up to THB 13,500 must be repaid in 13 monthly installments.

The repayment terms of 25 months and 37 months will apply for a larger amount of loan but not exceeding THB 27,000 and THB 45,000 respectively. For all cases, there is a one-month grace period. Over the first 7 months of 2005, 108,599 loans which amounted to THB 2,808 million were provided under the People's Bank Program.

- **Asset Capitalization Program:** Launched in 2004, it intends to create access to capital for the low-income who have assets but with limited access to capital for use in funding existing or new business ventures. Documents guaranteeing the lease rights for selling goods at stalls administered by municipalities and some government agencies are used as collateral for loans. A loan amount is in the range of THB 45,000 to 270,000 depending on the borrower's investment need. The interest rate is 12% per annum and the repayment term ranges from 3 to 5 years before the expiry date of the lease right. As of February 2005, a total of 2,054 loans which amounted to THB 148 million were extended.

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<sup>24</sup> GSB Annual Report 2007

- **People's Debt Restructuring Program:** It was created to help over 700,000 non-agricultural debtors who owe less than THB 90,000 to unconventional lenders. The branches of GSB take part in the negotiations with creditors for partial write-offs of the debts and then refinance the remaining amount at a lower interest rate. GSB also provides debtors with occupational training. As of August 2005, 8,868 debtors refinanced the total debt of about THB 342 million from unconventional lenders through this program.

These programs, while popular with many people, were populist programs of the former Thaksin government.

### **Islamic Bank of Thailand**

The Islamic Bank of Thailand Act was passed by the House of Representatives in October 2002. The bank is under the supervision of the Ministry of Finance. It provides banking services under Shariah law. It has a very limited housing finance role in the Thai market. At the end of 2008, the bank had total assets of THB 23,847 million. Its total loans stood at THB 16,687 million, of which THB 5,131 million were housing loans.

### **Credit Fonciers**

Credit fonciers finance the purchase of land and housing. They may not mobilize funds from public but mainly rely on borrowings. After the 1997 financial crisis, the number of credit fonciers was reduced from almost twenty companies to only three as of May 2009. At the end of 2007, total assets of these companies amounted to THB 2,285 million and loans to the property sector amounted to THB 943 million.

### **National Housing Authority (NHA)**

The Thai government established the National Housing Authority in 1973 as a state enterprise under the Ministry of Interior. Four government agencies that serviced lower-income individuals were combined to form the NHA: Housing Welfare Division, Public Welfare Department, Bangkok Metropolitan Administration's Slum Improvement Office and GH Bank's construction division. In 2003, the government reorganized its agencies and the NHA was attached to the newly created Ministry of Social Development and Human Security.

During the past three decades, the NHA has introduced many different types of dwelling units and services to the public. Rental apartments, condominiums, rental shophouses, government employee housing, sites and services, subdivision residential projects, new towns emergency housing, and standardized housing projects are examples of housing developments undertaken by the NHA.

The NHA's Community Development Department has also implemented projects to relieve congested residential areas on public and private land through re-blocking, relocation and environment-enhancing projects such as using effective micro-organisms to clean household and community waste water.

In addition to delivering middle to low income housing, NHA also provided housing finance via hire purchase contracts (fixed interest rate) for its own housing units from 1973 to 1990's. However, after commercial banks started their housing finance and offered lower floating interest rate loans, NHA's customers often switched to conventional housing loans,

the hire purchase activities of NHA declined. During this period, NHA encountered problem of using short-term loans to finance the long-term hire purchase loans. NHA discontinued the hire purchase program. The hire purchase program began again in 2006 due to the BEA projects when commercial banks failed to approved loans for BEA units.

By the end of 2008, NHA successfully built 366,780 housing units and improved more than 289,314 homes for the low-income. These included the following:

• Community housing	144,907
• Government employee housing	49,766
• BEA Projects	168,630
• Urban Community Development Projects	289,314
• Rajaphat University Dormitories	2,374
• Tsunami Victims Housing	845
• Property Crisis projects	<u>258</u>
Total	<u>656,094</u>

Source: NHA

### **Community Organizations Development Institute (CODI)**

The Community Organizations Development Institute is a public autonomous organization under the supervision of the Minister of Social Development and Human Security. CODI was set up in 2000 by a Royal Decree that merged the Urban Community Development Office (UCDO), a unit attached to the National Housing Authority, and the Rural Development Fund governed by the National Economic and Social Development Board. The Thai government set up UCDO in 1992 to address the problems of urban low-income which had grown rapidly during the period of high economic expansion in 1980s-1990s. By merging with Rural Development Fund, the new body focuses on urban low-income as well as rural low-income. CODI's main objectives are to support and empower community organizations and networks in the improvement of the standard of living, raising incomes, providing housing and improving environment of their members.

CODI's initial capital was THB 2,899 million (\$US 83 million). It also receives annual funding for implementing projects and activities which correspond to CODI's Development Plan and from special government programs such as Community Welfare, Poverty Alleviation and the Community Organization Strengthening Program.

Its funds are used for encouraging community-based savings and loans groups and providing financial support by lending capital funds to community organizations. At present, CODI provides 4 types of loans: housing loans, community enterprise loans, holistic development loans, and loan for short-term revolving funds. These loans have maturities ranging from 3 to 15 years and carry fixed interest rates.

In 2003, the government mandated CODI to implement 'Baan Mankong (BMK) Program' to solve problems of settlements and human security for low-income communities.

The original target was set at 300,000 households during a five-year period but was later scaled down to 200,218 units (*see detail in section 4.1*).

As of June 2009, CODI has approved loans to 636 community organizations (including BMK loans) totaling THB 4,618 million, of which THB 3,670 million has been disbursed and THB 1,302 million has been repaid to CODI. The outstanding loans to community organizations were THB 2,368 million.

### **Cooperatives and Credit Unions**

Cooperatives and credit unions provide important short-term housing financing for their more than 10 million members throughout Thailand. The 6,947 active institutions had total assets of THB 865 billion (\$US24.7 billion) at the end of 2007.<sup>25</sup> Cooperatives and credit unions are a source of down-payment and housing renovation loans. It appears that commercial banks will not accept cooperatives and credit unions loans as secondary mortgage loans.

### **Secondary Mortgage Corporation (SMC)**

Secondary Mortgage Corporation (SMC) was set up by Emergency Decree in 1997 on Secondary Mortgage Finance Corporation BE 2540. Its main objective is development of a secondary market through securitization to expand housing finance funds.

At the time of its inception, Thailand was facing a financial crisis. SMC was expected to stimulate a sluggish real estate business. SMC engages in two types of businesses: 1) portfolio investment by purchasing good quality housing loans from GH Bank, commercial banks, finance companies and credit fanciers; and 2) securitization by purchasing housing loan portfolio from banks and then issuing mortgage-backed securities to investors based on such assets.

Currently, SMC has a limited housing finance role. As of June 2008, its total assets were merely THB 2,094 million, of which THB 1,859 million were housing loans purchased from other financial institutions. These loans mainly had long-term tenures of up to 30 years. SMC has done no securitization. Lack of securitization is due to high liquidity and low deposit interest rates of commercial banks. Hence, commercial banks do not sell their housing portfolio to SMC.

## **3.5 Legal Provisions & Regulations Relating to Housing Finance**<sup>26</sup>

### **Overview**

Financing is a key issue for property development, whether it is for developers, contractors or buyers. All local and foreign financial institutions require security interests for property loans.

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<sup>25</sup> Cooperative Auditing Department, Ministry of Agriculture and Cooperatives

<sup>26</sup> Pornavalai, Cynthia and Karnchanapayap, Yingyong, 2009, Property transactions and security interests under Thai law, *GH Bank Housing Journal*, vol. 2, No. 4-5

Under Thai law, the following forms of security and collateral are recognized and traditionally available: (i) mortgage of immovable property and certain types of movable property, (ii) pledge of movable property, and (iii) corporate or personal guarantees. Thai law does not recognize various forms of common law collateral or security interests, such as liens or charges.

For property related loans, the principal security taken is a mortgage over the relevant property. Lenders to property developers generally require additional security including pledging the operating and/or property owning entity's shares, assignment of contracts such as management, construction, assignment of bank accounts and insurance contracts as well as corporate or individual guarantees.

### **Mortgage Property**

Only certain types of property can be mortgaged, i.e., immovable property, for example, land and houses; and certain types of movable property, such as certain types of machinery, equipment, and trade fixtures. To be valid and enforceable under the law, a mortgage must be in writing and registered with the relevant authorities. In the case of land and buildings, the relevant authority is the Land Department.

A creditor, whether a local or foreign financial institution has the right to take mortgages on land as security for loans, provided that its constitutional documents specifically state that it has the ability to lend money on security of an immovable property. There must also be evidence that the lending bank is registered to engage in banking and financial services.

Enforcement of a mortgage under Thai law takes two forms: foreclosure and Court action. Foreclosure is instituted when the debtor has failed to pay interest for 5 years, or the mortgagor is not satisfied that the mortgaged property's value is sufficient to pay the indebtedness, or when there is no other encumbrance on the mortgaged property.

Other than the above conditions, mortgages can be enforced only by entering an action in Court for a judgment ordering the mortgaged property to be seized and sold by public auction. As foreclosure is rather cumbersome it is seldom used. In most cases, a mortgage is enforced by filing a case in court and getting a court judgment for sale of the mortgaged property by public auction.

### **Escrow <sup>27</sup>**

In a move to provide property buyers more protection, Thailand enacted the Escrow Act on May 21, 2008; under this Act, the use of an escrow account is voluntarily. Only commercial banks and finance companies (operating under laws governing financial institutions, and banks established under specific laws) may operate as escrow agents. In addition, escrow agents must be licensed by the Minister of Finance, based on Escrow Business Operation Supervision Committee recommendations.

The Act lists the conditions and requirements for engaging in the escrow business: the rights and duties of the parties to escrow agreements; those of an escrow agent; and the powers of the Escrow Committee.

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<sup>27</sup> Pornavalai, Cynthia, 2009, New Escrow Act – still voluntary for property transactions, *GH Bank Housing Journal*, vol. 2, No 4-5.

Escrow Committee monitors Escrow Agents and has the authority to order agents to correct or stop prohibited activities. Criminal penalties are prescribed for escrow agents committing fraud.

### 3.6 Terms and Conditions of Lending for Housing<sup>28</sup>

Many new home buyers in Thailand borrow money from financial institutions to purchase their homes. The following are some details for the Thai home-loan mortgage market.

<b>Maximum Loan Amount (Loan to Value)</b>	80-90% of the bank's appraisal value
<b>Loan Repayment</b>	A maximum monthly payment not to exceed 35% of monthly incomes
<b>Loan Period</b>	Generally 20-30 years
<b>Mortgage Interest Rate</b>	<ul style="list-style-type: none"> <li>- Usually floating rate reference to each lending bank such as "Minimum Lending Rate" (MLR) or "Minimum Retail Rate" (MRR)</li> <li>- Bank may offer fixed rate for the first 3-5 years period</li> <li>- Adjustable Interest Rate may be offered in some banks</li> </ul>
<b>Mortgage Interest Rate Ceiling</b>	The Bank of Thailand requires each bank to post a maximum interest rate ceiling
<b>Property Valuation or Appraisal</b>	All houses or mortgaged properties must normally be appraised prior to loan approval, valuation fee paid by borrowers
<b>Origination Fee</b>	Usually 0.25-0.5% of the loan amount (GH Bank waives this fee if loan amount is less than THB 500,000)
<b>Credit Information</b>	Bank usually requires borrowers to have credit history; i.e., employment, salary, saving statement, etc.
<b>Collateral</b>	Mortgage registration at the Land Department required in all cases; otherwise, a guarantee is needed; mortgage fee paid by borrower
<b>Mortgage amortization</b>	Declining principal balance method

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<sup>28</sup> Kritayavanaj, Ballobh, 2009, Home mortgage lending practices – Thailand 2009, *GH Bank Housing Journal*, vol 3 No. 6

<b>Prepayment Penalties</b>	Borrowers are permitted to partially or fully repay the loan prior to the loan period but may be charged penalty during early years
<b>Default Interest Rate</b>	The banks will impose Default Interest Rate for all unpaid amount if the borrower misses a payment



## **SECTION 4: PRO-POOR HOUSING PROGRAMS**

### **4.1 Pro-poor Government Programs**

#### **Lower-income housing programs**

Currently, the Thai government uses three primary programs with different approaches. National Housing Authority offers the BEA program and Community Organizations Development Institute offers the BMK Program. GH Bank and GSB target their mortgage loans at lower income households.

#### **Baan Eua-Arthorn (BEA)**

In 2003, Prime Minister Thaksin Shinawatra's Government initiated the BEA program to provide housing access to lower segments of the population nation wide. The Government assigned the Ministry of Social Development and Human Security and the Ministry of Finance to formulate the program, having NHA implement the program.

BEA is a new community housing program enabling lower income households to have homeownership in new communities with social and personal security. Although this program aims at helping stimulate economic activity, the program also provides land tenure and affordable homes in a community with new infrastructure. The program expects to reduce formation of new congested communities (slums) in the future. NHA supervises and manage the communities at least for the first 5 years.

Affordability arises from no required down payment and no upfront fees, major barriers to lower-income households buying homes. Infrastructure is subsidized and households will also have land tenure. Furthermore, NHA is able to maintain high standard of dwelling design and construction in a decent environment for these lower income households.

At the early stage, NHA used its own land in developing the BEA projects, contracted out the construction. Projects close to urban and industrial centers are very popular especially those built on land parcels from NHA's land bank. However, after the first year of the BEA program, project implementation was changed to a "turn-key" system. NHA provides construction supervision for these projects.

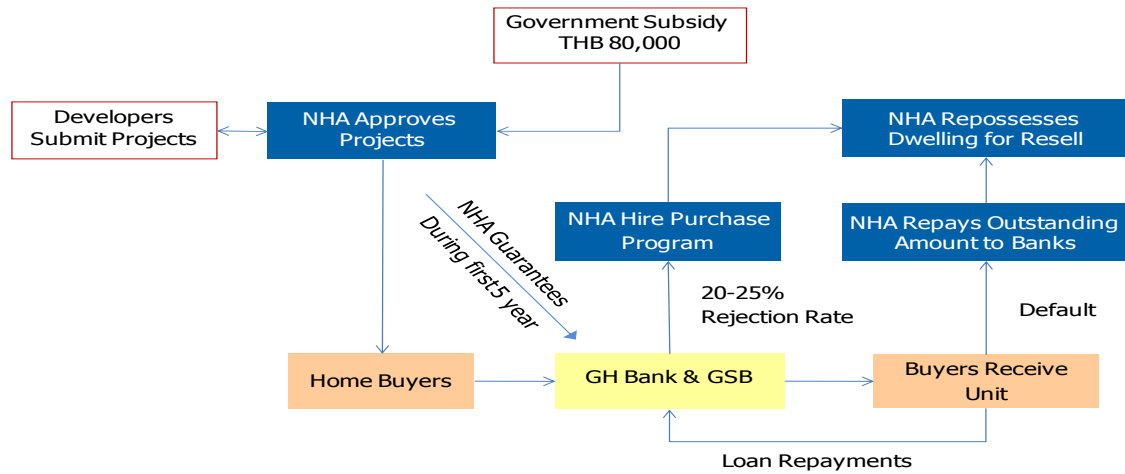
All BEA projects employ some level of new technology in their construction from standardized building design to large scale cast-in-place molded structure. Furthermore, the result of implementing these new technologies has resulted in wider use domestically and overseas.

NHA is currently completing the BEA program. It's original goal of 600,000 homes was scaled down to 281,000. Approximately, 200,000 units have been built and the remaining units are currently under construction.

This program targets households with monthly incomes of THB 15,000 or less. The Government subsidizes THB 80,000 of the total THB 470,000 cost. This subsidy pays for onsite infrastructure and is deducted from the costs resulting in a THB 390,000 selling price. NHA borrows the remaining fund from Banks for construction. No down payment is

required and buyer may apply for housing loan with GH Bank or GSB. NHA will guarantee the loan repayment for the first 5 years.

**Figure 4-1: NHA's BEA Financing**



BEA implementation problems include:

- Program's scale is beyond NHA's organizational capabilities, hence NHA has to rely on project developers.
- Subsidy should depend upon local conditions; for example, infrastructure is different from one area to another, but acquired same amount of subsidy.
- Mismatch of demand and supply
  - Affordability: there was no lower income limit, which caused misunderstanding in projecting demand as well as who should be eligible.
  - Pricing: all units are priced the same nationwide no matter location, design or size
  - Location: many locations are remote, some areas have too many projects resulting in oversupply in those particular areas and type of dwelling.
  - Design and size: Many dwellings don't reflect the local differences. For example, the basic two-level dwelling on a small plot (80 square meters with a frontage of 6 meters or more) suits buyers in the Bangkok Metropolitan area but fails to match the expectations of potential buyers in smaller towns where land is cheaper and more available.
- Increasing interest rate: monthly payment rose from THB 1,500 per month to THB 2,500 per month due to the increasing interest rate from 4% to 7%, resulting in affordability problems.
- Ability to access to housing loan depends on credit history where many buyers could not establish credit ratings for housing loans. NHA provide those buyers, who application were not approved by banks, with hire purchase program that created burden to NHA.

The Government of Prime Minister Abhisit Vejjajiva passed a Cabinet resolution to lower the number of BEA unit from 300,504 to 281,556 units. In addition, the Government also reduced NHA's financial burden from the project's incurred interest cost by the amount of THB 3,587 billion for fiscal year 2009 and another THB 1,205 billion for fiscal year 2010.

### **Baan Mankong (BMK)**

The BMK's objective is solving settlement and tenure security problems for low-income communities countrywide. The concept of BMK is not to tackle each slum's problem individually but to look at collective problems on a city-wide scale. At initial stages, low-income communities work closely with their local governments, professionals, government agencies, universities and NGOs to survey all the communities in their individual cities and then plan an upgrading process which attempts to improve all the city's low-income communities.

Once these city-wide plans are finalized and upgrading projects are selected, CODI channels infrastructure subsidies and housing loans directly to the communities through legally established cooperatives or savings groups. Government subsidies to BMK are THB 68,000 per unit. The subsidy is paid to the implementing cooperatives to be used for infrastructure improvements such as electricity, pipe, walkways, sewerage etc. A part of the government subsidy is for housing renovation to reduce costs. CODI acts as program facilitator and budget administrator and provides long-term financing for land acquisition and housing construction.

BMK not only focuses on building for low income people but also takes into account social aspects of the community such as welfare and living environments. The BMK concept allows low-income communities to study their settlement's physical problems and develop their own resolution and implementation plans.

BMK has used various methods to upgrade low income settlements including:

1. On site improvements

These projects help solve land tenure problems, improve the physical environment and basic services in existing communities with minimal adjustments to layouts or plot sizes. Community welfare programs and community businesses also benefit from these projects.

2. Reblocking

Reblocking is a systematic way to improve infrastructure and physical conditions in existing communities along with land tenure security. Layouts of houses and roads are adjusted so that new sewers, drains, walkways and roads can be conveniently installed. These adjustments however do not interrupt a community's continuity because the total process is controlled by the community at its own pace.

3. Land sharing

Land-owners and the community agree to share the land. A portion of the land is either given, sold or leased to the community where housing is to be reconstructed and the balance is returned to the landowner for development. This model allows both parties to settle their conflicts.

The community is no longer occupied by squatters but by legal owners or land tenants and the landlords are able to further develop the land.

#### 4. Reconstruction

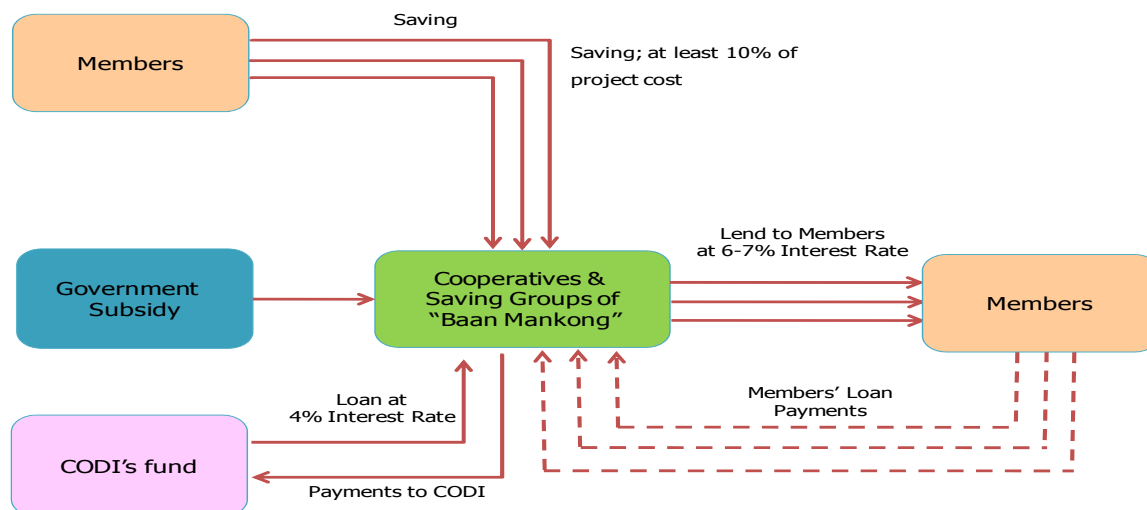
Existing communities are totally demolished and rebuilt, after the community has secured the land either under long-term leases or purchases. The land security encourages occupants to invest in new reconstruction.

#### 5. Relocation

Occupants are relocated nearby if possible. Relocation is normally advantageous because it usually comes with housing security, through land use rights, ownership or long-term leases. Communities however face house reconstruction costs and in some cases land costs.

About 75% of BMK projects are upgraded on existing land with on-site upgrading, reblocking or reconstruction or nearby relocations. From 2003 to June 2009 the BMK project umbrella encompassed 738 housing projects throughout Thailand, benefiting 79,884 households in 246 districts.

**Figure 4-2: CODI's BMK Financing**



There are three main components in financing of each BMK housing projects: 1) subsidy from the government which equals THB 68,000 per family; 2) long-term loan extended by CODI; and 3) community's own savings.

Government subsidy: The subsidy is channeled through CODI to the community organizations who own the project and the community decides how to utilize this subsidy. A small amount of subsidy is also set aside for administrative expenses. Usually, most of the subsidy is used to improve infrastructures such as electricity, water supply, walkways, and sewerage, for example. In some cases, subsidy may be allocated directly to households.

Long-term loan from CODI: For any BMK project which requires financing either for land purchase or housing construction or both, a community organization may obtain a loan from CODI up to 90% of total project cost (*see current terms and conditions of CODI loans in Appendix 5*).

Community savings: Prior to obtaining CODI loan, CODI staffs have to ensure that the recipient community is capable of funding and managing the upgrading project. The key

element is community-based savings. The saving program should be operational for at least six months and accumulated an amount not less than 10% of project cost. If necessary, CODI staff would assist in applying accurate and reliable accounting system for the organization. This saving requirement determines the loan amount for each household. A member who fails to save up as committed may have to reduce loan amount and revise their housing plan.

As of June 2009, CODI approved THB 2,692 million of BMK loans to 208 community organizations, of which THB 1,795 million has already been disbursed. The outstanding loan amount stood at THB 1,515 million.

## **Problems faced by BMK**

### Funding shortage

To reach its 200,218 units target, BMK will need additional subsidized loans of about THB 15,000 million or about THB 2,140 million annually over the next seven years. CODI's remaining capital funds are insufficient to support these future requirements. Funds from other sources must be mobilized. Currently, only THB 500 million has been committed by GH Bank and no other public or private financial institutions have shown any interest. Local banks are reluctant to join the program because they are still unfamiliar with community-based lending and its level of credit-risk.

### Public land-use policies

Some government agencies have different idle public-land exacerbates squatter resolutions. Other agencies support the BMK program and have agreed to lease land to existing dwellers at low prices on a long-term basis. The original tenants have become lawful tenants and are willing to improve their living conditions. Agencies that have different or no squatter policies interfere with CODI's goals to have city-wide housing improvement.

### Coordination between relevant organizations

This lack of cooperation among agencies of the government slows down CODI's project implementation. Several agencies may be involved in the BMK process and each may have different policies towards resolving slum and squatter problems. Local authorities also play a key role in upgrading process.

### Certain rules and regulations are obstacles to slum upgrading

For example, the Building Code 1979 establishes minimum requirements for each building's exterior and minimum distances between buildings. Such requirements are not practical for low-income housing because of increased costs of meeting the regulations. In 2007, the government has agreed some exemptions are needed for low-income projects. Other laws relating to the environment, the Land Subdivision Act and the City Planning Act also should be modified. However, these revisions of laws and regulations remain unrevised.

## **4.2 Pro-poor Programs of Formal Housing Finance Institutions**

In general, research for this report uncovered few pro-poor housing and housing finance programs offered by any financial institution or organization in Thailand. Many organizations provide traditional housing loans to low income households. However, these households have

more income and assets than low-income households. As far as can be determined, this applies to programs that might be offered by NGO's, etc. as well.

### **Habitat for Humanity**

Habitat for Humanity's (Thailand) recently signed a Memorandum of Understanding with GH Bank wherein the bank would provide new loans of THB 230 million to families to either build new homes or renovate existing homes. These loans will help about 2,300 families. It was established in Thailand in 1998, this US based non-profit organization has helped 3,000 families in Thailand alone with household incomes of between THB 5,000 and THB 15,000 per month achieve home ownership.

### **4.3 Pro-poor Programs of Co-operatives/Community-based organizations/ NGO's**

Certain types of co-operatives such as thrifts and credit union also offer housing loans to their primarily middle to low income members. In 2008, cooperatives' savings totaled THB 320,841 million while loans totaled THB 784,649 million.<sup>29</sup> However, no statistics were kept for housing loans.

No comprehensive information on Pro-poor housing finance seems to exist. The low-income are considered to be very high risk because of cultural norms and random personal experience. In general, most lenders appear to believe that lower class borrowers seldom repay debts. When making a loan to such a low-income person or household, the lender acknowledges these risks and accepts that the loan may not be repaid.

For credit unions, repayment is probably not an issue because of the structuring of credit cooperative groups where members become disciplined in credit, finance, and business operations.

Few pro-poor housing finance models appear to exist in Thailand. NGO's, and other such organization offer few financial programs assisting the urban low-income.

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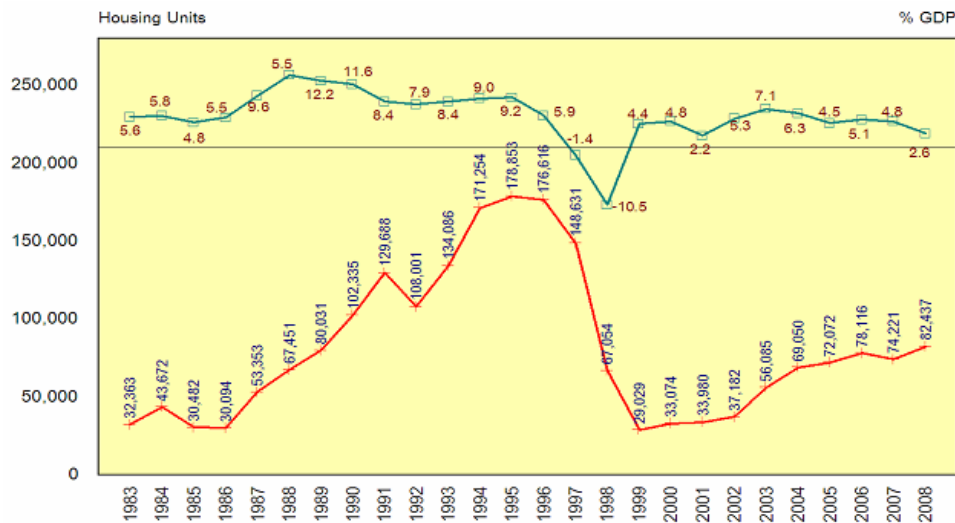
<sup>29</sup> Cooperative Auditing Department

## SECTION 5: EXTENDING HOUSING FINANCE

### 5.1. Potential Housing Finance Market

Statistics show that home mortgage financing has risen with economic growth.

**Figure 5-1: Home Mortgage Financing and GDP**



Source: GH Bank, REIC, NESDB

Compiled by: GH Bank Research & Information Services Department

The home-financing market will grow steadily as household incomes increase. More people will reach the middle and lower income levels serviced. Housing finance for the low-income, however, will most likely remain very limited and difficult to expand or justify on the basis of financial risk. Completing the demographic transition indicates Thailand is no longer the developing country. In the future, the low-income will tend to be those who are poorly educated, lack working experiences, and female heads of household with dependents. These factors will exacerbate the problem of assisting lower-income households. The problem of the Low-income will be more and more difficult to solve like other developed countries. The practice of adult children sending regular amounts of support to elderly parents may also be changing. Tracking this data would provide clues.<sup>30</sup>

### 5.2 Expanding Housing Finance of the Formal Sector

Home-mortgage financing, especially for the low-income, can be increased if governments allocate some of the financing costs to housing programs that are specifically tailored for the low-income and represent an overall national social responsibility to provide

<sup>30</sup> This appears to be an issue in the Central Region for the most part.

adequate housing. From NHA's experience, it appears that lower-income households need to increase their income or improve their budgeting prior to taking out housing loans.

The original idea of NHA's small business loan program (circa 1975) was to improve incomes so that low-income household could improve their housing themselves. The program involved the Krung Thai Bank and the borrowing households. NHA community development staff would qualify, train and supervise participants. A small loan of up to THB 12,500 was available. When the loan was paid back, the participant would automatically receive a small line of credit which might increase depending upon repayment history. At least some early participants doubled their income in less than one month under this program. However, the bank and NHA staff never understood the dynamics and advertising benefits that might accrue at that time.

Thailand's policy framework relies on the private construction sector utilizing their own financing sources to provide lower-middle income to upper income housing. Buyers have access to retail banks and GH Bank for residential loans. Funding for the private sector comes from a number of sources. Many large developers have adequate cash flow resources or investors to self-finance their projects. Banks lend to construction companies and lend mortgage funds to buyers. GH Bank is the major lender for housing loans. Present government policy directs the NHA to sell off all the existing and planned units as mentioned above.

The government may explore if a 'Public Service Accounting' methodology could be use to separate lending to low-income groups from accounts of commercial services. This would help the bank to resolve normal banking practice problem when applied with these public service activities. The bank could also declare this activity as corporate social responsibility of the organization.

### **5.3 Expanding Housing Finance- NGOs/MFIs/CBOs/Co-operatives**

As far as it is possible to ascertain, none of these organizations focus on housing finance.

### **5.4 Recent Initiatives and Innovation in Housing Finance**

#### **CODI-GH Bank refinancing program**

In 2007, CODI and GH Bank entered into an agreement whereby GH Bank agreed to refinance BMK projects from CODI up to an amount of THB 100 million. This was a ground breaking program that allowed slum dwellers to access funding from a financial institution.

However, to access this financing CODI had to commit a portion of its capital funds to guarantee the loans and compensate GH Bank for the program's below-market interest rates.



## **Main features**

Credit Guarantee. At the onset, CODI placed a fixed deposit of THB 100 million with GH Bank as a credit guarantee fund. GH Bank is entitled to deduct from this fund for non-payment losses. Initially, CODI provided 100% coverage for these loans.

Funding cost compensation. GH Bank agreed to take these loans on its books at the same interest rate and tenure as CODI-BMK's original loans. The loan carries a 4% fixed interest rate for up to 15 years. At that time, the rate was low when compared to prevailing market rates. CODI compensated GH Bank by placing additional amounts of low-interest deposits.

Eligible projects criteria. Eligible projects are cooperatives or savings groups which have obtained CODI-BMK loans and have made monthly repayments to CODI for at least one year. Construction is either completed or underway. The borrower must have maintained a good record with CODI i.e. never missed a single payment.

In early 2009, CODI and GH Bank agreed to increase the refinancing amount from THB 100 million to THB 500 million. Certain terms and conditions have also been eased, including reducing the guarantee coverage to 20%. Projects which have been implemented for at least six months are now eligible for refinancing by the bank as well.

## **Establishing a National Housing Fund**

NHA initiated a study<sup>31</sup> on alternative source of housing finance for low income groups, which it completed early this year. The study recommends that Thai government should consider a National Housing Fund (NHF), a specialized housing finance institution, that will provide home financing for low-income families. The Fund should be established as a new entity but employ operational expertise from existing organizations such as GH Bank. This new institution would aim at providing housing finance for low income groups unable to access existing finance sources because of difficulties in providing documentation to support their loans. Participants at the National Workshop on Lower-Income Housing Finance agreed in principle with the study's recommendations to establish a National Housing Fund.

NHF may have the following features or services:

- Protection for 3 months missed payments;
- Rent with option to purchase;
- Asset recovery when collaborating with other low income housing finance providers;
- Share-ownership, such as government provides land and/or infrastructure while individuals invest in construction;
- Credit guarantees;
- Co-financing with other housing providers to provide long-term fixed interest rate loan;
- Cooperate with the local government to provide housing finance.

Financing the fund may include:

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<sup>31</sup> Final Report, The Study on "Sources of Low Income Housing Finance", Avantgarde Capital Co., Ltd., March 2009

- Initial capital from the government;
- Funds raising through capital markets such as government-guaranteed bonds, mortgaged-backed securities while the government could also provide tax incentives to create investors' interests;
- Grant or soft loans from international development agencies in terms of grants;
- New land & property tax

### **Additional GH Bank Role**

GH Bank could also be mandated with more incentives to play a leading role in providing housing finance for the middle and lower-income. Currently, GH Bank is the major supplier of home loan financing to the lower and middle income segment. However, because it operates as a financial institution that is regulated by the Bank of Thailand, it is often reluctant to extend loans to the low-income with no prior credit histories.

A separate entity could be established specifically under the GH Bank umbrella with concessionary funding from the government to specifically grant loans and develop strategies that will increase the amount of home-lending financing for the low-income.

However, CODI has been able to work with GH Bank to provide long-term financing to low-income communities. Other local banks are still reluctant to participate in the program as they are unfamiliar with community-based lending which is perceived as high-risk.

### **Capital Markets and Securitization Developments**

As the Thai capital markets continue developing they will become a greater source of direct and indirect financing for housing finance.

GH Bank and the Government Savings Bank have long accessed the local and international debt markets for funding. In the last several years, much of this debt funding has not required government guarantees and is readily available if priced appropriately.

The NHA in 2002 securitized THB 700 million of its hire-purchase receivables. These securities were successfully sold to domestic investors. However, the NHA has not initiated any new securitizations since then.

Securitizing CODIs receivables will provide access to the capital markets. CODI could consider the model used by NHA to securitize THB 700 million of its hire-purchase receivables in 2002. To attract investors, credit enhancements and guarantees will inevitably be required from CODI. The enhancement costs will have to be carefully analyzed and the total securitization costs will have to be compared with other financing and funding alternatives.

GH Bank planned a THB 35 billion securitization of its loans in 2007 both locally and internationally. This project attracted bids from 22 local and foreign investment banks but its ultimate launch was delayed by the global financial crisis.<sup>32</sup>

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<sup>32</sup> Woo, K I, 2007, Securitization – Thailand's housing industry needs it!, *GH Bank Housing Journal*, vol. 1, No. 1

## SECTION 6: CONCLUSIONS AND RECOMMENDATIONS

### 6.1. Key conclusions and recommendations

#### National Housing Policy Required

Thailand should continue supporting free market housing development and financing systems. These consumer-driven markets should adhere to His Majesty the King's sufficiency economy initiatives. Sufficiency economy concepts in the context of housing finance may be interpreted as avoiding excessive debt, unnecessary over spending, and conspicuous over-consumption.

Housing should be viewed as a sustainable national priority; a long-term process that requires a stable policy framework and attention to national priorities. It should also be viewed as an engine of social and economic development and brings significant benefits in terms of employment creation, domestic capital mobilization and social well-being in the face of the major challenges posed by migration and urbanization.

The Thai government should give high-priority to establishing a long-term housing policy and strategy that includes providing adequate housing for the low-income. Thailand should also develop strategic housing plans with clear-cut targets and mechanisms that will ensure that target objectives are achieved. As part of this overall program, preventative measures should also be discussed to reduce future slum development.

The country should also develop a national housing policy that specifically addresses low-income housing. The National Housing Policy Board establishment is a step in this direction beginning with its inauguration on July 9, 2009 (*For more details see Section 2.3*). Furthermore, to ensure the execution of long-term sustainable housing policies, Thailand should perhaps implement specific Ministries to be responsible for housing and urban development.<sup>33</sup>

The Thai government housing sector will soon be coordinated and supported by the recently established National Housing Policy Board. Policies will be generalized and all stakeholders should have a voice in determining future national housing policy directions. The National Housing Policy Board may need to consider some of the following issues.

Demographic change: Thailand has undergone major demographic change to low birth rates and low death rates resulting in a low growth rate. Attention needs to be paid to the variation in the characteristics of individuals, families, and households so the housing supply, demand, affordability and financing decisions reflect the changes in population characteristics.

Income levels and other variables: A critical element of a National Housing Policy should be periodically re-determining at what income levels and other variables<sup>34</sup> the low-income households should be provided access to home-ownership. The National Housing Policy and Strategy should therefore specifically provide a comprehensive range of housing alternatives for the low-income that have not reached the "home-ownership" threshold.

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<sup>33</sup> Prachuabmoh, Khan, 2007, An integrated National Housing Development Strategy – key to a sustainable Thai economy, *GH Bank Housing Journal*, vol 1, No 1.

<sup>34</sup> Such as shelter payments, savings, change in assets, and other factors related to the activities of households.

For instance, people with very low-incomes would be provided subsidized rental-housing funded from national budgets. At higher income levels, government subsidies should be decreased as home-ownership will be encouraged to acquire their own homes through specific programs.

Revision of law and regulations: Relevant laws and regulations should be reviewed to support any proposed implementation and any plan should be periodically reviewed and reassessed. For example, Thailand's Environmental Impact Assessment (EIA) are widely recognized as necessary for improving the country's overall quality of living, these sometimes harsh requirements can hinder redevelopments in low income areas. For example, standard street widths may hinder a slum area from being upgraded. An overall national housing policy should specifically provide mitigation of certain environmental impact requirements for low income housing development.

Housing subsidy: Future governments may have to bite the bullet and increase NHA housing or subsidized private rental housing projects for citizens that have migrated to the urban areas for work. Project costs should be viewed by all governments as a critical part of providing appropriate infrastructure as our economy industrializes and more people migrate to the cities.

All of these suggestions should be an integral part of reforming national low-income housing policy. They will change the low-income housing landscape by minimizing risk and the Government's ultimate financial responsibilities. To change this landscape, government agencies that support the society and the economy must adequately and effectively serve their customers – the private sector and citizens. This change appears to be one of the goals of the 1997 Constitution.

### **Continue Land-Tenure Development**

Since access to land is a necessity to have a house and ownership of land and a house is necessary to have something to finance. It is useful to understand the Thai tenure situation.

In general, land tenure in Thailand is thoroughly organized and has a long historical tradition. A free market economy exists and property is regularly and easily transferred.<sup>36</sup>

Nevertheless, Thailand's overall titling process still needs to be improved. Large amounts of farmland leased from RFD or otherwise have no titles. The government's policy is to establish legal tenure on most agricultural land in Thailand.

True title deeds (Chanote ti din) are only found in the developed-parts of the country and accounts for only a part of the land in the country Chanote titles, issued by the Provincial office of the Thai Land Department, are accurately surveyed, plotted in relation to a national survey grid and also marked by unique numbered marker posts set in the ground. The Land Department's long-term goal is to ensure that all land in Thailand is under the Chanote title system. However, this process is expected to take decades because of limited available funds, manpower and resources. However, the use of Global Positioning System (GPS) may accelerate this process.

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<sup>36</sup> Patpongpibul, Kitti, 2009, Government Housing Bank and Housing Finance in Thailand, *GH Bank Housing Journal*, vol. 3, No. 6

Most "titles" in rural Thailand are however of the Nor. Sor. Sam or Nor Sor. Sam Kor. (N.S.3.) variety and are in the strictest interpretation "land exploration testimonial deeds". They are to all practical purposes land title deeds (issued and maintained by the Amphur, the District land office) in as much as clear records of ownership are maintained. They may be sold, leased, used as mortgage collateral etc. In the case of the Nor. Sor. Sam. (but not the more recently issued Nor. Sor. Sam. Kor.) 30 days public notice is required before any change of status over the land can be registered.<sup>37</sup>

## **6.2 Outline Future Needs**

### **Housing Supply System Model**

The Housing Supply System (*See section 2.1*) should be used to support the delivery of housing. Systematic support should be developed for supply sector factors including housing finance, owner builder replacements, renovation, and expansion of housing both in urban and rural areas as legitimate housing stock additions. Housing programs should emphasize small business development: training, apprenticeship, mentoring, small loans, and networking. To optimize its housing delivery system, Thailand should also review and revise if necessary some of our existing programs. The focus would be to keep the Thai Housing Supply as elastic as possible. That is: keeping the cost of new housing units from rising as increased numbers of housing units are needed.

### **Baan Eua Athorn (BEA)**

Although the BEA program has provided homes for more than 150,000 lower income Thais (as of June 2009), the targeted home-owners (families that earned THB 15,000 per month) had great difficulty qualifying for mortgage loans at GH Bank. More than 25% of the applicants were rejected for financing.<sup>38</sup>

While the BEA program has been widely accepted as a viable option for lower-income Thais, the long-term financing mismatch has been a major reason why the project has not achieved its objective of providing 600,000 homes for low-income Thais in five years.

Over the long-term, solutions for end-product and end-financing mismatches should be carefully considered before any new low-income project is undertaken. Short of providing guarantees, government could develop public or private subsidized rental programs for all citizens that earn less than a certain minimum monthly income.

### **Redefining Risk Assessment Factors for the Low-Income**

To increase housing financing loans to the low-income, risk assessment factors should be adjusted so that the low-income can qualify for housing loans. The government could mitigate some of the risks so that the private sector will participate in the funding.

Programs must also be established to train the low-income to live within set budgets for specific periods. After a specific period, these people will be able to obtain loans primarily by

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<sup>37</sup> [www.ethailand.com/index.php?id=536](http://www.ethailand.com/index.php?id=536)

<sup>38</sup> NHA statistics, June 2009

providing sweat equity fixing up, repairing the house as down payments on their homes.

### **Consumer Finance Education for the Low-Income – Consumer Protection**

Consumer finance education for lower-income households is critical for the development of home-loan financing. This education should also coincide with the development and promotion of adequate Consumer Protection Laws.<sup>39</sup>

The Consumer Protection Act (1979) addresses five basic rights, namely, the right to be informed, the right to choose, the right to safety, the right to redress and the right to fair contract terms.

### **6.3 Future opportunities and challenges**

Regional and international cooperation on low-income housing should be encouraged. The Ministry of Finance should assist in identifying international funding sources for this sector.

International agencies such as the World Bank, Asian Development Bank should be more active in this sector. For example, an international low-income housing guarantee fund could help the low-income tap funds from global markets.

### **6.4 Future Action**

#### **Lowest Income Households Finance Options**

Currently the private sector and the government provide adequate housing finance for middle and lower income people in Thailand. However, the lowest income households still have few housing finance options.

Some of the suggestions from Thailand National Workshop on “Housing Finance for the Lower Income Households” are:

1. Encourage saving before borrowing;

Saving before borrowing, may enhance financial discipline of individuals and households and may help to establish a rating. The government (or any other organization) could promote saving before borrowing through higher deposit rates and make additional payments to deposits held for a long period of years. Both of these incentives should be limited to low-income households.

2. Subsidizes for home rental fees:

The government could subsidize part of the rental payment to assist low-income households unable to purchase a dwelling at that time. Currently, the government subsidizes low-income households who buy a house, providing a subsidy to low-income

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<sup>39</sup> NHA records

households that rent a house or apartment would make housing for low-income households more equitable.<sup>40</sup>

3. Utilize adjustable time mortgage loans:

Adjustable time mortgages would stabilize payments of low-income households by extending or shortening the borrowing period when interest rates increase or decrease.<sup>41</sup>

4. Develop money market for long term mortgage products:

At present, the domestic money market supports 3 to 7 year debentures rather than longer term household mortgage loans of 26 to 30 years. The government should develop a market for such long term mortgage products to solve this mismatch.<sup>42</sup>

5. Increase liquidity of real estate market:

Increasing the liquidity of this market would provide more opportunities for homeowners with financial problems to sell their house and might mitigate some risk to financial institutions because dwellings might be sold easier avoiding foreclosures.<sup>43</sup>

6. Promote collaboration with local government:

Since the 1997 Constitution moved the responsibilities of providing adequate housing to local governments, local governments need assistance in understanding the housing delivery system and housing finance, dwelling rehabilitation, and community development aimed at providing adequate housing.

7. Land tax should be developed

If a property tax law is enacted, local government will be able to collect more taxes that can be used to assist housing for low-income households.<sup>44</sup>

8. A need for a national housing fund:

The participants in the National Workshop agreed that there should be a national housing fund. Section 5.4, Establishing a National Housing Fund, explains some of the features.

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<sup>40</sup> National Workshop on Housing Finance for Lower Income Households was held on July 30, 2009 at the Swiss Le Concord Hotel, Bangkok, Thailand

<sup>41</sup>Comment: Both of the above programs should probably be put into a program assisting new home buyers and renters and deal with all of the various issues related to buying and renting rather than just one aspect: savings.

<sup>42</sup> Comment: Such loans should also allow households to pre-pay their loans.

<sup>43</sup> Comment: As long as the savings rate of households is high with a small short term market, this mismatch might be difficult to solve.

<sup>44</sup> Comment: With the oversupply of dwellings and stable population growth, opportunities for the sale of dwellings can most likely be improved by improving the real estate market by using Multi Listing Services and improving access to the market outside of driving about or using realtors who tend to concentrate on their own listings.

<sup>45</sup> Comments: Value added taxes are already high at 15%. Property tax will just add another tax for low-income households to pay, hardly a method to assist these households.

## 9. Adapting public service accounting methods:

Special financial institutions could provide loans to low-income households that might be accounted for separately from other mortgages by using a “Public Service Accounting Methods” (local reinvestment loans) to avoid these more risky loans being included with the institutions portfolio. The GS Bank and the GH Bank might be able to do such loans.<sup>45</sup>

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<sup>45</sup> Comment: Rating companies might still include these types of loans in their ratings unless there is a clear responsibility of the government to back these loans or the borrowers carry special insurance.



## References

Report Footnotes	Sources /Organization
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[3] <a href="http://service.nso.go.th/nso/data/ToptenHTML/people_high.htm">http://service.nso.go.th/nso/data/ToptenHTML/people_high.htm</a>	National Statistical Office of Thailand website
[4] <a href="http://www.fpo.go.th/pdf/forecast_Eng_March08_pres.pdf">http://www.fpo.go.th/pdf/forecast_Eng_March08_pres.pdf</a>	Thailand Economics Projection (as of March 2009) Fiscal Policy Office, Ministry of Finance
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[9] Fiscal Policy Office, March 25, 2009	Thailand Economics Projection (as of March 2009) Fiscal Policy Office, Ministry of Finance
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[20] For a radical view of NGO's in Thailand see Ji Giles Ungpakorn's article NGO's: enemies or allies: <a href="http://www.isj.org.uk/index.php4?id=18&amp;issue=104">www.isj.org.uk/index.php4?id=18&amp;issue=104</a> - 46k	Ji Giles Ungpakorn's article NGO's: enemies or allies: <a href="http://www.isj.org.uk/index.php4?id=18&amp;issue=104">www.isj.org.uk/index.php4?id=18&amp;issue=104</a> - 46k
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[24] Pornavalai, Cynthia and Karnchanapayap, Yingyong, 2009, Property transactions and security interests under Thai law, <i>GH Bank Housing Journal</i> , vol. 2, No. 4-5	Pornavalai, Cynthia and Karnchanapayap, Yingyong, 2009, Property transactions and security interests under Thai law, <i>GH Bank Housing Journal</i> , vol. 2, No. 4-6
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[27] Cooperative Auditing Department	Cooperative Auditing Department, Ministry of Agriculture and Cooperatives
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[32] Such as shelter payments, savings, change in assets, and other factors related to the activities of households	Johnson, T. E., Housing Demand Study to Provide Estimates of Housing Demand, Housing Affordability, and Housing Need, National Housing Authority, Department of Housing and Human Settlements Studies, June 21, 2550
[33] Patpongpibul, Kitti, 2009, Government Housing Bank and Housing Finance in Thailand, <i>GH Bank Housing Journal</i> , vol. 3, No. 6	Patpongpibul, Kitti, 2009, Government Housing Bank and Housing Finance in Thailand, <i>GH Bank Housing Journal</i> , vol. 3, No. 6
[34] <a href="http://www.ethailand.com/index.php?id=536">www.ethailand.com/index.php?id=536</a>	<a href="http://www.ethailand.com">www.ethailand.com</a>
[35] NHA statistics, June 2009	National Housing Authority, Department of Housing Development Studies
[36] NHA records	National Housing Authority, Department of Housing Development Studies
[37]	<a href="http://www.ethailand.com/index.php?id=536">www.ethailand.com/index.php?id=536</a>
[38]	NHA statistics, June 2009
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## APPENDIX 1A

### Schedule of Commercial Banks in Thailand

No.	Logo	Institution Name	Address
1		ACL BANK PUBLIC COMPANY LIMITED <a href="http://www.aclbank.com">http://www.aclbank.com</a>	11- 13 Fl., Emporium Tower 622 Sukhumvit Road, Khlong Ton, Khlong Toei, Bangkok 10110 Tel. 0-2663-9999 Fax. 0-2663-9888
2		BANGKOK BANK PUBLIC COMPANY LTD. <a href="http://www.bangkokbank.com">http://www.bangkokbank.com</a>	333 Silom Road, Bangrak Bangkok 10500 Tel. 0-2231-4333 Fax. 0-2236-8281-2
3		BANK OF AYUDHYA PUBLIC COMPANY LTD. <a href="http://www.krungsri.com">http://www.krungsri.com</a>	1222 Rama III Road, Bang Phongphang Yan Nawa, Bangkok 10120 Tel. 0-2296-2000 Fax. 0-2683-1304
4		CIMB THAI BANK PUBLIC COMPANY LTD. <a href="http://www.cimbthai.com">http://www.cimbthai.com</a>	44 North Sathon, Silom Bangrak Bangkok 10500 Tel. 0-2633-9000-3 Fax. 0-2633-9026
5		KASIKORNBANK PUBLIC COMPANY LTD. <a href="http://www.kasikornbank.com">http://www.kasikornbank.com</a>	1 Soi Kasikornthai, Ratburana Road, Bangkok 10140 Tel. 0-2888-8888 Fax. 0-2888-8882
6		KIATNAKIN BANK PUBLIC COMPANY LIMITED <a href="http://www.kiatnakin.co.th">http://www.kiatnakin.co.th</a>	500, Amarin Tower, Ploenchit Road, Pathumwan, Bangkok 10330 Tel. 0-2680-3333 Fax. 0-2256-9933
7		KRUNG THAI BANK PUBLIC COMPANY LTD. <a href="http://www.ktb.co.th">http://www.ktb.co.th</a>	35 Sukhumvit Road, North Klongtoey, Bangkok 10110 Tel. 0-2255-2222 Fax. 0-2255-9391-3
8		SIAM COMMERCIAL BANK PUBLIC COMPANY LTD. <a href="http://www.scb.co.th">http://www.scb.co.th</a>	9 Rutchadapisek Road, Chatuchak, Bangkok 10900 Tel. 0-2544-1000 Fax. 0-2544-4948
9		STANDARD CHARTERED BANK (THAI) PUBLIC COMPANY LIMITED <a href="http://www.standardchartered.co.th">http://www.standardchartered.co.th</a>	90 North Sathorn Road Silom Bangkok 10500 Tel. 0-2724-4000 Fax. 0-2724-4444
10		THANACHART BANK PUBLIC COMPANY LTD. <a href="http://www.thanachartbank.co.th">http://www.thanachartbank.co.th</a>	1st, 2nd, 13th, 14th floor Thonson Building, 900 Ploenchit Road, Lumpini, Pathumwan, Bangkok 10330 Tel. 0-2655-9000 Fax. 0-2655-9001
11		THE SIAM CITY BANK PUBLIC COMPANY LTD. <a href="http://www.scib.co.th">http://www.scib.co.th</a>	1101 Newpetchburi Road, Rajthevi, Bangkok, 10400. Tel. 0-2208-5000 Fax. 0-2253-1240, 0-2226-3798
12		TISCO BANK PUBLIC COMPANY LIMITED <a href="http://www.tisco.co.th">http://www.tisco.co.th</a>	TISCO Tower, 48/2 North Sathorn Road, Silom, Bangrak, Bangkok 10500 Tel. 0-2633-6000 Fax. 0-2633-6800

No.	Logo	Institution Name	Address
13		TMB BANK PUBLIC COMPANY LIMITED <a href="http://www.tmbbank.com">http://www.tmbbank.com</a>	3000 PHAHON YOTHIN ROAD, CHATUCHAK, BANGKOK 10900 Tel. 0-2299-1111 Fax. 0-2990-6010
14		UNITED OVERSEAS BANK (THAI) PUBLIC COMPANY LIMITED <a href="http://www.uob.co.th">http://www.uob.co.th</a>	191 South Sathon Road, Bangkok 10120, Thailand Tel. 0-2343-3000 Fax. 0-2287-2973-4

## APPENDIX 1B

### Schedule of Retail Banks in Thailand

No.	Logo	Institution Name	Address
1		AIG RETAIL BANK PUBLIC COMPANY LIMITED <a href="http://www.aigretailbank.co.th">http://www.aigretailbank.co.th</a>	990 Abdulrahim Place 7th and 10th Fl., Rama 4 Road, Silom, Bangrak, Bangkok 10500 Tel. 0-2687-9999 Fax. 0-2687-9988
2		LAND AND HOUSES RETAIL BANK PUBLIC COMPANY LIMITED <a href="http://www.lhbank.co.th">http://www.lhbank.co.th</a>	1 Q. House Building, Lumpinee, South Sathorn Road, Sathorn, Bangkok 10120 Tel. 0-2677-7111, 0-2359-0000 Fax. 0-2677-7227, 0-2359-0059
3		THE THAI CREDIT RETAIL BANK PUBLIC COMPANY LIMITED <a href="http://www.tcrbank.com">http://www.tcrbank.com</a>	1st floor, 123 Thai Life Insurance Bldg., Ratchadaphisek Road, Dindaeng, Bangkok 10400 Tel. 0-2697-5454 Fax. 0-2246-9782

## APPENDIX 2

### Schedule of SFIs from MOF

No.	Logo	Institution Name	Address
1		BANK FOR AGRICULTURE AND AGRICULTURAL COOPERATIVES <a href="http://www.baac.or.th">http://www.baac.or.th</a>	469 Nakornsawan Rd., Jitradha, Dusit, Bangkok 10300 Tel. 0-2280-0180 Fax. 0-2280-0442
2		EXPORT-IMPORT BANK OF THAILAND <a href="http://www.exim.go.th">http://www.exim.go.th</a>	Exim Bldg., 1193 Phaholyothin Rd., Samseannai, Phayathai, Bangkok 10400 Tel. 0-2271-3700 Fax. 0-2271-3204
3		ISLAMIC BANK OF THAILAND <a href="http://www.isbt.co.th">http://www.isbt.co.th</a>	M, 21-22 Floor, Q. House Bldg., 66 Sukhumvit 21 Rd., North Klongtoey, Wattana, Bangkok 10110 Tel. 0-2650-6999 Fax. 0-2204-2765
4		SECONDARY MORTGAGE CORPORATION <a href="http://www.smcthailand.com">http://www.smcthailand.com</a>	5th Floor, Silom Office Tower, 393 Silom Rd., Silom, Bangrak, Bangkok 10500 Tel. 0-2685-0695 Fax. 0-2685-0637-8
5		SMALL AND MEDIUM ENTERPRISE DEVELOPMENT BANK OF THAILAND <a href="http://www.smebank.co.th">http://www.smebank.co.th</a>	310 Phaholyothin Rd., Samseannai, Phayathai, Bangkok 10400 Tel. 0-2265-3000 Fax. 0-2265-4000
6		SMALL INDUSTRY CREDIT GUARANTEE CORPORATION <a href="http://www.sbcg.or.th">http://www.sbcg.or.th</a>	17-18th Floor, Charn Issara Tower 2, 2922/243 New Petchburi Rd., Bangkok, Huaykhwang, Bangkok 10310 Tel. 0-2308-2741-8 Fax. 0-2308-2749
7		THE GOVERNMENT HOUSING BANK <a href="http://www.ghb.co.th">http://www.ghb.co.th</a>	63 Rama 9 Rd., Huaykhwang, Huaykhwang, Bangkok 10320 Tel. 0-2645-9000 Fax. 0-2645-9001
8		THE GOVERNMENT SAVINGS BANK <a href="http://www.gsb.or.th">http://www.gsb.or.th</a>	470 Phaholyothin Rd., Samseannai, Phayathai, Bangkok 10400 Tel. 0-2299-8000 Fax. 0-2271-1515

## APPENDIX 3

### Key Institutions, Regulators, and Related Laws

Item		Regulator	Related Law
1	<a href="#">The Bank of Thailand</a>	Ministry of Finance	Bank of Thailand Act B.E.2485 and amended
2	Commercial Banks	Bank of Thailand	Financial Institutions Businesses Act B.E.2551
3	Foreign Bank branches		
4	Subsidiary		
5	Retail Banks		
6	Finance Companies		
7	Credit Foncier Companies	Bank of Thailand	Financial Institutions Businesses Act B.E.2551
8	The Government Savings Bank	Ministry of Finance/ Bank of Thailand	Government Savings Bank Act, B.E.2489
9	The Bank for Agriculture and Agricultural Cooperatives (BAAC)	Ministry of Finance/ Bank of Thailand	The Bank for Agriculture and Agricultural Cooperatives Act, B.E.2509
10	The Government Housing Bank	Ministry of Finance/ Bank of Thailand	Government Housing Bank Act, B.E.2496
11	The Export - Import Bank of Thailand (EXIM-Bank)	Ministry of Finance/ Bank of Thailand	The Export-Import Bank of Thailand Act, B.E.2536
12	Small and Medium Enterprise Development Bank of Thailand (SME Bank)	Ministry of Finance/ Bank of Thailand/ Ministry of Industry	Small and Medium Enterprise Development Bank of Thailand Act, B.E. 2545
13	Islamic Bank of Thailand	Ministry of Finance/ Bank of Thailand	Islamic Bank of Thailand Act, B.E.2545
14	The Small Industry Credit Guarantee Corporation (SICGC)	Ministry of Finance/ Ministry of Industry	The Small Industry Credit Guarantee Corporation Act, B.E. 2534
15	Secondary Mortgage Corporation (SMC)	Ministry of Finance/ Bank of Thailand	Emergency Decree on Secondary Mortgage Corporation B.E.2540
16	Thai Asset Management Corporation (TAMC)	Ministry of Finance	Emergency Decree on the Thai Asset Management Corporation B.E.2544



Item		Regulator	Related Law
17	Asset Management Companies	Ministry of Finance/ Bank of Thailand	Emergency Decree on the Asset Management Company B.E.2541
18	Money Changers	Ministry of Finance/ Bank of Thailand	Exchange Control Act, B.E.2485
19	Securities Companies	Securities and Exchange Commission	The Securities and Exchange Act, B.E.2535
20	Mutual Fund Management Companies		
21	Life Insurance Companies	Ministry of Finance/ Office of Insurance Commission	Life Insurance Act, B.E.2535 and amended
22	Agricultural Cooperatives	The Department of Cooperatives Promotion and the Department of Cooperative Auditing, Ministry of Agriculture and Cooperatives	Cooperative Act, B.E.2511 and amended
23	Savings Cooperatives		
24	Provident Fund	Securities and Exchange Commission	Provident Fund Act, B.E. 2530
25	Social Security Fund	Ministry of Labour	Social Security Act, B.E.2533
26	Pawnshops	Ministry of Interior	Pawn-shop Act, B.E.2505 and amended

## APPENDIX 4

### Detail of Mortgage Lending Practices

#### Maximum loan amounts

For most individuals, a home loan is usually the largest amount they will borrow in their life-times.

In Thailand, financial institutions allow home loan purchasers to borrow an amount equal to a multiple of their monthly incomes. Normally, home buyers monthly mortgage payments should not exceed 35 % of monthly incomes.

Most financial institutions, however, don't have ceilings on home loans amounts. They are normally only concerned with the borrower's credit worthiness i.e. whether the borrower can make the monthly principal and interest payments. However, in general, no home-loan can exceed the home's appraisal value.

Commercial banks in Thailand seldom issue mortgage loans of less than THB 1 million. GH Bank, a government owned Specialized Financial Institution (SFI) fills that void by providing home loans to middle and lower income Thais with its average loan approximating THB 700,000.

#### Loan-to-value ratios

All Thai banks establish maximum loan-to-value ratios for home mortgage loans. In general, Thai banks will not permit loan-to-value ratios to exceed 70-90% of the purchase price or appraised value. However, the Government Housing Bank offers loans of up to 100% for some specific welfare programs such as mortgage loans to Government Pension Fund members. The Bank reduces its default risk on these loans by automatically deducting monthly installment payments from the buyer's salaries.

#### Loan term or repayment period

Because home mortgage loans are normally for large amounts, they are usually long-term loans that are amortized over many years. Thai financial institutions generally provide home loans for 20 to 30 year terms.

Interest rates are fixed for three to five year periods and then adjusted to market rates for additional periods.

Some Thai financial institutions further limit loan-terms if buyers exceed a certain age. In these situations, a borrower's age and the loan term must not exceed 70 years. For instance if a borrower is 55 years old, the financial institution will limit the loan term to 15 years.

Most home-owners generally repay their home loans prior to the end of the original loan-term because their incomes rise over time or they sell their original homes or purchase new homes.

## Mortgage Rates

Financial institutions in Thailand establish fixed and floating rate home mortgage loans:

### Floating rate loans

Floating rate loans feature interest rates that may continually change over a loan-term. New interest rates are usually dependent on money market rate adjustments or changes in a determined reference rate

Specifically, “**Reviewable Rate Mortgages**” or “**Variable Rate Mortgages**” are loans with interest rates that can be adjusted at any time.

“**Adjustable Rate Mortgages**” refer to mortgage interest rates that are periodically adjusted to a reference rate such as a government bond.

In Thailand, floating rate loans refer to loans that are adjusted to changes in the “**Minimum Lending Rate**” (MLR) or “**Minimum Retail Rate**” (MRR). Floating rate home loans are normally equal to or plus or minus MLR/MRR rates depending upon the liquidity in the financial system, market demand for funds and the bank’s competitive policies.

During the past three or four years, home loan interest rates were below MLR because banks were competing fiercely for housing loans. Floating rate home loans during the period carried lower interest rates than most other bank loans.

### Fixed rate loans

Interest rates on fixed-rate loans are fixed over the loan’s contracted period (20-30 years). Fixed rate loans generally are constant payment, fully amortizing loans, repayable through equal monthly payments of principal and interest. Presently, no financial institutions in Thailand offer long term fixed rate loans similar to those offered in other countries (e.g. 30 year fixed mortgage loans are common in the USA). The Government Housing Bank currently offers the longest five year fixed-rate mortgage loan in Thailand. .

### Mixed-rate loan or hybrid mortgage

The Thai mortgage market offers two types of home mortgage loans:

#### A. Short term fixed rates – then floating

Many banks in Thailand offer mortgage loans with interest rates fixed for initial short periods (1-2-3-4-5 years). After the initial fixed period, the loan interest rate floats with the Bank’s announced reference rate (MLR or MRR at the end of the fixed period). The new floating interest rate will either be lower or higher than the previous fixed rate, depending upon the financial market situation and bank’s cost of funds at that time. For example, the Government Savings Bank’s current short term fixed rate loan is fixed at five % for three years. After the three years, the interest rate will float at the Bank’s MLR. (now 6.5%). The Siam Commercial Bank is now offering a one year fixed rate loan that will eventually float at  $MRR + 02.5\%$ .

#### B. Stepped-up fixed rates and then floating

Some banks offer mortgage loans with fixed interest rates for two to five years. However, during this fixed period the rate will be stepped-up. After the fixed period the interest rate will float with the Bank’s MLR or MRR. For example the Government Housing Bank offers three year stepped-up fixed rates of 3% for the first year, 4% for the second year and 5% for the third year; followed by floating rates,

Hybrid loan interest payments can be either fixed at the same interest rate for a contracted period (i.e. 5% for three years) or feature interest rates that change (but determined) over the contracted period (i.e. 3% year 1, 4% year 2 and 5% year 3).

#### Special floating rates

Floating rate loans are usually for one to three year periods and the interest rates are tied to changes in the MLR or MRR. For example the Government Housing Bank's special floating rate currently is MRR – 2.00% for the first 3 years. Afterwards it will be changed to a floating rate at MRR – 0.50%.

#### Rollover mortgage loans

These are short-term home loan mortgages, where-in the principal is refinanced and the interest rate is adjusted periodically, say at specified 3 – 5 – 7 year periods at the going renewal rate as agreed upon by lenders and borrowers. The adjusted interest rate will reflect the market rate. The Government Housing Bank no longer offers this type of loan. .

### **Mortgage interest rate ceilings**

The Bank of Thailand requires each bank to post a maximum interest rate ceiling specifically for floating rate home loan mortgages. Borrowers purchasing homes with floating rate loans will be subject to the maximum interest rate ceiling posted by the bank on the date their loans are funded (for the full loan term). Each bank sets its own interested rate ceiling.

Currently banks have established the following interest rates ceilings for floating rate home loan mortgages: GH Bank - 19%, Government Savings Bank - 18%, Bank of Ayudhya - 14.57%, Kasikorn Bank and TMB Bank - 12.75%, Bangkok Bank - 11.75%, Siam Commercial Bank - 11.25%.

### **Property Valuation or Appraisal**

All houses or mortgaged properties must normally be appraised prior to loan approval. The property appraisal may be undertaken by the bank's valuation department or outsourced valuation firms. The valuation reports are normally reviewed by the bank's internal valuation department.

The loan officers will use the valuation reports for loan underwriting. Approved loans normally do not exceed the appraised property value. In some cases, the bank will accept the developer's actual selling price as the appraised value. In these cases, borrowers are not required to pay valuation fees and the underwriting process is shortened.

### **Valuation fees**

Borrowers normally pay appraisal fees that are dependant on the value of the proposed loan or the bank's policies. For example, the Government Housing Bank charges valuation fees of THB 2,100 for loan amounts of THB 500,001 to THB 3 million; THB 2,500 for loans exceeding THB 3 million. Kasikorn Bank and Bangkok Bank charge valuation fees of Bt 2,500 for all loan amounts.

The Bank's credit officers use the appraisal reports to finalize loan amounts that are usually about 70 to 90 % of appraised value or selling price, whichever is lower.

### **Origination Fees**

Most financial institutions charge origination fees, underwriting fees, loan management fees and whatever fees they deem required. For example, Bangkok Bank charges 0.5% of loan as an origination fee while Siam Commercial Bank and Kasikorn Bank charge 0.25% (minimum THB 2,500). TMB Bank charges 0.25% (minimum THB 1,000 and maximum THB 10,000).

GH Bank does not charge origination fees for loans of less than THB 500,000. The Bank may charge a fee of 0.01% if loan exceeds THB 500,000.

### **Loan analysis and approval**

In the past, loan analysis and approval were carried out by loan analysts or underwriters based on credit information supplied by the borrower, such as employment history, salary, other income and savings statements, credit history etc. including property valuation reports. However, most financial institutions now use “**credit scoring**” models and National Credit Bureau's customer information to improve their loan underwriting and approval efficiency.

As a consequence, normal loan approval processes are now much quicker (one to two weeks) and NPLs have fallen in the past several years to as low as 2 %. Several Thai banks have even implemented computerized pre-approval systems that approve consumer loans within a few minutes after a borrower's profile is entered into the system.

### **Property transfers and mortgage registration**

Thai property must be transferred at the Land Department or its branch offices. Normally, the buyers, sellers and mortgage lenders gather at the Land Department on the closing date and execute the necessary documents and funds transfers. The property transaction process normally takes place within a few hours. The property transaction fee is 2% of property value. Recently, the Thai government reduced this fee to only 0.01% to stimulate real estate sales.

If the transaction includes a mortgage, the borrower must pay a one % mortgage registration fee. Recently, the Thai government also reduced this fee to 0.01% to stimulate sales.

If the borrower defaults on the mortgage, the Bank will foreclose on the property through the Thai judicial system.

## **Monthly installment payments**

Monthly home-loan mortgage payments depend on three factors: loan amount, interest rate and loan term.

In computing monthly payments for floating rate loans, most Thai financial institutions include a reserve that will help mitigate the “payment shock” from subsequent interest rate increases and accompanying higher mortgage payments.

For example, in computing a buyer’s monthly payment on an initial home mortgage loan with a nominal 6.5 % interest rate, the bank’s may add a one or two % “reserve”. The buyer’s monthly payments will then actually reflect interest rates equaling 7.5 or 8.5 % respectively. This practice will be useful for both lender and borrower as a cushion to mitigate potential default risks.

Thai banks normally use Minimum Lending Rate (MLR) or Minimum Retail Rates (MRR) as reference rates when determining home loan mortgage interest rates. For instance: GH Bank may use MRR+1%, Government Savings Bank at MLR + 0.25% etc.

## **Loan Repayment methods and channels.**

In general, borrowers must pay their first loan installment within 30 days from the date that they receive the loan. Installments can be made in the following manner: at bank counters by cash or cheque; direct debit from personal bank accounts or employer accounts; pay-point services; pay-at-post services; commercial counter services – 7-Eleven or Tesco Lotus stores.

## **Mortgage amortization**

Each monthly mortgage payment includes both principal and interest that are amortized over the loan term. The mortgage loan monthly payment will result in a declining principal balance and eventual repayment in full at the mortgage-term end.

Under the level payment amortization process adopted by Thai’s banks, interest payments constitute a higher portion of loan payments at the loan’s earlier years and are gradually reduced.

## **Prepayment penalties**

In Thailand, borrowers are permitted to partially or fully repay the loan. However, they will be charged prepayment penalties if they fully repay loans within three to five years after the contract date.

GH Bank charges a prepayment penalty of 3% if a loan is fully repaid in the first year and 2.5% and 2.0% in years two and three. Kasikorn Bank, Bangkok Bank and Bank of Ayudhaya charge 3% if the loan is fully repaid during the first three years. Other financial institutions charge similar rates.

## **Default Interest Rate**

The banks impose default interest rate for outstanding loan after a grace period. For instance, GH Bank imposes a 13.5 % late charge if the borrower's loan payment is outstanding for 60 days. Bank of Ayudhya charges 20.57% while Kasikorn Bank, Bangkok Bank, Siam Commercial Bank charge 15%.

## **Mortgage related insurance**

In Thailand, all borrowers must purchase compulsory **“fire insurance”** on the properties naming the financial institution as the beneficiary-payee. Borrowers also may purchase **“mortgage life insurance”** that will pay-off the mortgage balance if the borrower should die during the mortgage term

**“Mortgage default insurance”** is still not available in Thailand at the present time. GH Bank has been in the process of organizing a Mortgage Insurance company during the past few years.

## APPENDIX 5

### Current Terms and Conditions of CODI Loans

- Eligible Borrower: A community organization such as a cooperative, a savings group, or a network of savings groups
- Maturity: Up to 15 years
- Interest Rate: Fixed at 4% p.a.
- Repayment: Monthly equal installments starting one month after loan disbursement
- Maximum Amount: Loan amount shall not exceed THB 300,000 per household.
- Security:
- a) A guarantee agreement signed by chairman, committee and all members of the borrower.
  - b) Land and buildings (present and future) are mortgaged with CODI
  - c) Bank deposit of 5-10% of project cost (optional)
- Lending Criteria: CODI would assess the borrower based on its financial capability to service the loan, the creditability of its accounting and monitoring system and internal control.
- Re-Lending: The borrower will on-lend the fund to individual household by adding a margin of 2-3% to the interest cost. The margin is set aside for the purpose of loan administration, community welfare and serves as a cushion for loan repayment in case any member fails to meet his or her obligation in any particular month.